

Nation's Business[®]

The Small Business Adviser

**How To Motivate
Low-Wage Workers**

**Social Security:
Options For Change**

**Putting Together
A Digital Office**

Leadership **For The New Millennium**



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Business leadership centers on "helping clarify the destiny of an organization" and creating the conditions to achieve it, says garden-supply entrepreneur Will Raap. He and others envision challenges and strategies for the coming era. Cover Story, Page 18.



PHOTO: STORM SCHULZ—BLACK STAR

Health-service providers Irving and Norma Edwards motivate employees through recognition. Managing, Page 35.

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Exemplary business leaders are those who are poised to move their companies into the next millennium. To cope with rapid change, bright new leaders must be flexible yet still draw on deeply held values.

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Editor's Note

Special Skills For Special Times

Many of us think about leadership every four years when we elect a president of the United States. Some of us think about leadership when we watch Michael Jordan overpower the Chicago Bulls' opponent in the final minutes of a professional basketball game. And some of us think about leadership when we ponder how to guide a business or other organization to a higher level.

Knowing that most entrepreneurs strive constantly to reach that next level, Editor-At-Large Sharon Nelton set out to help them as she researched this month's cover story. She tapped the minds of business owners whose companies are achieving remarkable growth, and she talked with management experts about the qualities that will define successful business leaders in the new millennium.

What are those characteristics? See Nelton's report, beginning on Page 18.



PHOTO: ISAKITA KASIO-BLACK STAR

Color and communication are keystones of Korean-born Dominic Pangborn's Detroit design firm. *Making It*, Page 16.

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Special reports on the latest developments in office technology and on how small companies are benefiting from car and truck leasing are among the other articles this month aimed at helping our readers improve their business operations.

The technology report starts on Page 44, and the leasing story begins on Page 54.

One company whose leasing experience is detailed in the transportation report is dessert distributor PWS Foods of Grand Prairie, Texas. (In the photo at left, company employee Ron Flackman unloads one of the trucks leased by the firm.)

The experiences of this company and others could help you decide whether to buy or lease. Enjoy the issue!



PHOTO: FRANK PETERLIN

Cover Design: Alberto Pacheco


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Mary Y. McElveen


Mary Y. McElveen
Editor





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 Small Business Financial Manager



Dear Kim Libby,
I'm writing to confirm your order and to tell you we're committed to making your order as good as possible—and we're committed to making sure you should also know that we have a number of reports have brought to light some discrepancies.

| Items | |
|---------------------|---------------|
| Product | Cost of Sales |
| House Special Blend | \$499,138.97 |
| Kenyan Blend | \$399,031.02 |
| Costa Rican Blend | \$288,392.96 |
| Decaf French Roast | \$359,090.01 |

Microsoft Office 97 Small Business Edition / knows where y

(Also, where you're going, how to get there, what your



| Numerical Analysis | |
|--------------------|------------|
| Profit % | % of Sales |
| 78% | 28.33% |
| 67% | 15.40% |

Revenue



Brochure



Web Site



Postcard



Label



Business Form



Letterhead



ou're coming from.

Q4 sales are and how to spell "rhythm.")

Our new [Microsoft® Office 97 Small Business Edition](#) is based on thousands of hours of interviews with small business owners; we heard all about the wide variety of tasks you have to do in a day—from the mundane to the extraordinary—and this is the software we assembled to help you. It starts with the new releases of [Microsoft Excel 97](#) and [Word 97](#), and adds a few other indispensable applications. [Small Business Financial Manager](#), for example, turns raw numbers into insightful information that can help turn a cash trickle into a cash flow. [Publisher 97](#) will help you create professional-looking brochures, business cards, labels, even Web sites. [Microsoft Internet Explorer 3.0](#) helps you browse the Internet, access all kinds of business resources, drum up new contacts and re-establish old ones. When you want to contact your contacts in person, [Automap® Streets Plus](#) will give you a detailed map of how to get there. Finally, [Outlook™ 97 desktop information manager](#) organizes your e-mail, your schedule, your connections—basically, your life. With [Microsoft Office 97 Small Business Edition](#) taking care of all your busy work, you concentrate on other things—like making your small business into a larger one. For a more thorough tour of [Microsoft Office 97 Small Business Edition](#), just visit our Web site at www.microsoft.com/office/sbe/.

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Letters

Trade-Group Web Sites And Internet Security

I think the entire collection of Internet-related stories in the March issue hit upon all the major issues associated with the evolving use of Internet commerce. However, the cover story, "Making The Internet Work For You," addressed only half the problem in its discussion of security concerns.

Granted, the physical security of credit-card information should be a concern to everyone making purchases via the Internet. But there is a much bigger security matter that is rarely raised.

As you clearly demonstrated throughout this edition, when a World Wide Web site is properly designed and presented, it can be a great equalizer for small, independent entrepreneurs competing against large, multinational companies. However, this can present a quandary for potential customers trying to evaluate the legitimacy and integrity of a business on the Web.

There are some guidelines that potential buyers may want to use. Many trade associations are beginning to link to their members' Web sites. Membership in a trade association can offer some assurances that a business has made an investment in its industry and agrees to support the association's code of ethics.

Therefore, finding businesses via a trade association's Web site can be a partial solution. However, as in all areas of commerce, "Let the buyer beware" is still the best advice.

Bruce Steinberg
Director of Research and Media Relations
National Association of Temporary
and Staffing Services
Alexandria, Va.

A More-Global Reach

"Making The Internet Work For You" was a very good primer for the uninitiated or casual user on the commer-

cial possibilities of the Internet. There is money to be made and business to be enhanced and made more efficient by using the Net.

One small item of omission in the article is the "American-centric" aspect of the use and language of the Internet.

Yes, the Internet was developed here, and we have the economies of scale and the computer "backbone" to support it, but the Net can really save companies much more money when it is applied internationally.

Many English-speaking foreigners use the Internet, but what of those who do not speak English? To think that a message for marketing or technical support can be sent halfway around the block or halfway around the world for the same distribution price is a key point to consider.

International business can be garnered without leaving our shores or dealing with time zones or lengthy travel. Firms such as Hitext (www.hitext.com) can bring a very accurate, pointed, and effective approach to Internet business through translation, editing, software and interface engineering, desktop publishing, and checks for cultural attributes. These services are available to business at a reasonable cost.

Colin C. Doyle
Executive Sales Manager
Hitext America Corp.
Fort Lee, N.J.

Small Firms Should Look At New 401(k) Option

I read "Small Firms' New Retirement Choices" [February] with interest, since our firm works with small companies to help them develop the most appropriate retirement-plan solution.

Although the new SIMPLE 401(k) is not a universal solvent for small companies, it should not be rejected out of hand simply because it requires a minimum employer contribution.

Many companies until now have not been able to start a 401(k) because of fam-



Partnering: Windows 95



You want some hardware with that?

As proud as we are of our software, we have to admit you can't do much without a Windows-based PC to run it on. So, our [small business Web site](http://www.microsoft.com/smallbiz) includes links to a number of leading PC manufacturers, all of whom offer [a range of systems built to meet the needs of small businesses](#), all of which feature a variety of Microsoft business software pre-installed. You can find the configuration that's right for you—along with articles and advice to help you decide—by visiting us at www.microsoft.com/smallbiz/WindowsPCs/.

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Nation's Business
The Small Business Adviser

LETTERS

ity ownership, limited interest among low-paid employees, or high fees.

In many instances, owners of these businesses were willing to contribute to their employees' accounts, but they were prevented from having a reasonable opportunity for themselves because of salary-discrimination testing.

For companies such as these, a SIMPLE 401(k) may be the optimal way—and in some cases the only way—to start a 401(k) program.

Susan L. Spiller

Principal

Retirement Plan Strategies, Inc.
Burlington, Mass.

Seeing Wrong Questions In Education Poll

Once again your "Where I Stand" poll seeks to collect prejudiced answers. The questions in the April poll should be on what needs to be done about education, not who will pay for it.

It should be (but obviously is not) apparent to *Nation's Business* that only people pay taxes.

Therefore, it makes no difference whether funding comes from federal or local coffers.

Your survey is aimed only at trying to gather support for non-federal funding.

Again, that is not the question; the question is whether these programs should be supported.

A.J. Jones

President

Management Systems Support Inc.
Alexandria, Va.

O'Brian Foundation Is A Vital Program

I was delighted to read your article on the Hugh O'Brian Youth Foundation ["Riding Into The Sunrise," March].

With the U.S. facing intensified competition in global markets and the growing specter of shortages in skilled labor and other critical resources, programs such as HOBY become especially vital. By challenging young people to excel and by cultivating a balanced appreciation of the free-enterprise system, HOBY develops the leaders of tomorrow and ensures that they will understand they have the power to shape not only their individual destinies, but their world.

Through its annual World Leadership Congress, HOBY also promotes international cooperation and fellowship, which is

increasingly important as rapid technological, social, and political changes blur national boundaries.

HOBY also provides a compelling challenge to businesses and business leaders to assume an active, personal role in helping to develop the leaders of tomorrow.

None of this would be possible without the vision, energy, and leadership of Hugh O'Brian, a dynamic and persuasive advocate for youth who is owed a debt of gratitude by every American.

Norman R. Augustine
Chairman and CEO
Lockheed Martin Corp.
Bethesda, Md.



At the 1995 World Leadership Congress, held at Tufts University in Boston, Hugh O'Brian spoke with youths selected to attend the weeklong series of sessions on leadership and other broad topics.

From Tiny Acorns...

I enjoyed your article on the Hugh O'Brian Youth Foundation. This organization is a great example of what the right blend of common sense, perspiration, and inspiration can do to help make the world a better place to live.

Who would have dreamed that Hugh's idea would grow to become a nationwide program providing positive motivation for so many teenagers? Who, of course, but Hugh! Oz Nelson
Retired Chairman and CEO
United Parcel Service
Atlanta

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Dateline: Washington

Business news in brief from the nation's capital.

THE ENVIRONMENT

EPA Rebuilds Its Enforcement Muscle

The Environmental Protection Agency, whose enforcement budget has been cut substantially by Congress in recent years, has not lost its resolve to prosecute major polluters while also encouraging compliance by small companies and communities.

The EPA's dual roles of bad cop and good cop are likely to gain more attention if Congress approves President Clinton's fiscal 1998 budget for the agency's enforcement activities. The proposed enforcement budget totals \$541 million, a 4.2 percent increase from current levels and about the same level the EPA had in 1994.

After taking control of Congress, Republicans cut EPA enforcement funds, which dropped as low as \$515.5 million in fiscal 1996. (See the accompanying chart.)

Despite its reduced resources, however, the EPA recently announced that it had referred 262 criminal cases to the U.S. Department of Justice for prosecution in 1996 and had assessed a combined total of \$173 million in criminal, civil, and administrative penalties; both totals are records.

"The environmental cop is back on the beat in full force. It was a very strong year for the [enforcement] program," says Sylvia Lowrance, deputy assistant administrator of the EPA's Office of Environmental Enforcement and Compliance Assurance. And because the EPA's conflicts with Congress seem to have quieted down, she says, "we see stability in the enforcement budget. We [should] have the resources we need to run a vital program."

While the EPA hopes its image as a tough "enviro-cop" will help deter potential polluters, it tries to encourage voluntary compliance through various incentive programs. Several of them are geared toward small employers and small communities.

For instance, the EPA's Small Business Ombudsman office, in Arlington, Va.,



EPA's Enforcement Money

| Fiscal Year | Funding (In Millions) | Change From Previous Year |
|-------------|-----------------------|---------------------------|
| 1994 | \$540.1 | -5.3% |
| 1995 | \$516.1 | -4.4 |
| 1996 | \$515.5 | -0.1 |
| 1997 | \$518.7 | +0.6 |
| 1998* | \$540.7 | +4.2 |

*President Clinton's Budget Request

SOURCE: U.S. ENVIRONMENTAL PROTECTION AGENCY

provides a one-stop resource center for small-business owners struggling to understand and comply with environmental-protection rules. The office can be reached at 1-800-368-5888.

The EPA has adopted policies designed

to help small firms avoid financial penalties by disclosing and correcting voluntarily any environmental problems they encounter. And the agency is setting up several industry-specific compliance centers to help businesses follow environmental rules.

Mary Bernhard, manager of environmental policy for the U.S. Chamber of Commerce, says these small-business assistance initiatives "are a direct result of the business community's demands that EPA recognize the legitimate and unique needs of small businesses."

Because the EPA tends to focus its resources on major polluters, she adds, small firms that use the agency's small-business resources are less likely to be affected by any increase in EPA enforcement activity.

—Stephen Blakely

WORKPLACE SAFETY

OSHA Revising Rules On Injury Records

The Occupational Safety and Health Administration (OSHA) estimates that about 600,000 U.S. companies could be affected for better or worse by changes to a regulation on record keeping and disclosure that are being finalized by the agency.

The standard, which was subject earlier to public comment and is due in final form by June 30 under federal rule-making procedures, is expected to require several new categories of businesses to maintain and post records of employee injuries and illnesses. However, the standard also is expected to exempt some other types of businesses that now are subject to the requirements.

Restaurants, cleaning services, and automotive-supply stores are among the businesses that likely will have to begin maintaining safety records under the revised rule, expected to take effect on Jan. 1. Each February, these firms and others covered by the standard will be required to post on employee bulletin boards the sta-

tistics of on-the-job injuries and illnesses for the previous year.

When OSHA proposed the rule changes a year ago, it also identified home-furnishing stores, boat dealers, fuel dealers, land developers, equipment-rental firms, job-training services, residential-care operations, and several other types of businesses as probable new candidates for the requirements. Several other types of businesses remain under consideration for inclusion, according to OSHA.

Agency officials say, however, that OSHA will exempt some types of businesses currently covered by the rules, including doctors' offices, bowling centers, and parking garages. And some other currently covered businesses—including hardware stores and furniture-repair firms—are still under consideration for exemption, according to OSHA.

Any company with fewer than 10 employees is typically exempt from the requirements, but all employers, regardless of size, are required to notify OSHA about fatalities in the workplace.

—Steve Bates

ENTREPRENEUR'S NOTEBOOK

By Fred Duckloe

Sitting On Solid Ground

It's a common belief among business people that all except the most computer-literate and technologically advanced are doomed to be dinosaurs. For our furniture company, Frederick Duckloe & Bros., Inc., doing things the old-fashioned way—using master craftsmen and time-honored techniques of carving and finishing—is what makes us successful.

Started in 1859 by my great-grandfather, the company—which I co-own with my sister, Barbara Duckloe Townsend, the firm's secretary-treasurer—has grown to have a line of 80 patterns of original and adapted 18th-century-reproduction furniture. Annual sales have increased to roughly \$3 million. And while production has grown, too (in the 1930s, a good week meant turning out six chairs), our commitment to doing assembly, sanding, and finishing by hand has limited growth.

In 1996, our 30 employees produced about 5,000 Windsor chairs, settees, benches, and assorted other pieces. That annual production matches the weekly rate of many of today's furniture manufacturers.

Here's how we maintain old-fashioned quality even as we improve sales:

We let workers use their time wisely. Fitting and sanding by hand are required to achieve the levels of authenticity and quality our customers expect. But our craftsmen's time is better spent working on the nuances of a piece than on cutting basic components chair by chair.

Fred Duckloe is co-owner and president of Frederick Duckloe & Bros., Inc., in Portland, Pa. He prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to this column. Write to: Entrepreneur's Notebook, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.

So all repetitive work is automated, and we make parts for 50 to 100 chairs at a time, although assembly is generally done in batches of 25 and finishing is done in even smaller batches.

Our craftsmen and their apprentices can move freely between the parts and assembly operations as needed to com-

in the discard barrel has knots in it.

Likewise, we minimize manufacturing mistakes through communication. For example, before parts are cut, the craftsmen who will do the assembly are consulted so that pieces will fit exactly the first time.

We embrace technologies if they give us an edge. Just because our chairs are crafted without nails or screws—just like chairs made 200 years ago—doesn't mean that the information age is passing us by. In addition to regional and national advertising through traditional media, we have a World Wide Web site on the Internet, www.duckloe.com.

Marketing is one area where you have to keep up with the times.

We don't jeopardize what we do best. Doing things the old-fashioned way has earned our firm a top reputation in the industry and among customers.

Many customers return years after their first purchase to find that our chairs are built with the same solid construction and attention to detail as the ones my father built. That's what we're known for and why we will never change our approach in favor of "more, better, faster."

16



PHOTO: SIAL DIMARCO-BLACK STAR

Fine craftsmanship takes priority at the Pennsylvania furniture company co-owned by Fred Duckloe.

plete an order efficiently. While no one in the company counts how many spindles are produced in a day or how many chairs we complete each week, everyone knows that his or her part in the production process must be completed in a timely fashion to keep the operation on schedule.

As a result, all employees feel a responsibility to bring forward new ideas that could improve our products or productivity.

We limit waste. Just like the craftsmen of old, we abide by the proverb "Waste not, want not." The wood we use comes cut to size, reducing the amount that goes into the scrap pile. Virtually all wood purchased is used; even our sawdust is used as horse bedding by a farmer who hauls it away for free, saving us the cost of paying for disposal. The only wood

WHAT I LEARNED

Even in an era of technological advances, the quality that results from handcrafting can make your company a leader.



Send more. Save more.

If you're a business that sends lots of packages every year, you could save a lot of money with Priority Mail™ from the U.S. Postal Service. Priority Mail two-pound, two-to-three-day packages are only \$3. FedEx® two-day service is about \$8 and UPS® about \$7.*

You don't even have to call for a Priority Mail pickup or pay extra for it. The letter carrier who brings your mail every day can take your packages for you free. FedEx charges \$2.50 extra for pickups, UPS about \$3 extra.

And with Priority Mail, there's no extra charge for your customers to receive their packages on Saturdays, when part of regular Saturday postal delivery. FedEx charges \$10 extra for Saturday delivery. UPS doesn't even offer two-day Saturday deliveries.

So? Saving money?
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Saturday deliveries?
What's Your Priority?™



*Priority Mail: average delivery of 2-3 days. Price comparisons based on Priority Mail up to 2 lbs. vs. 2-lb. published rates for UPS 2nd Day Air® from \$6.50 and FedEx 2Day™ from \$7.60. Surcharge for Priority Mail on-demand pickup. © 1997 U.S. Postal Service

YK95

Managing Your Small Business

Carving a niche and serving it; getting the word out; building team spirit by bringing in the family.

By Roberta Maynard

IMAGE

Dining Styles Of The Rich And Famous

Attracting celebrities as regular customers can give a business, particularly a restaurant, a certain cachet. With that in mind, Larry Work and Michael Sternberg opened Sam & Harry's in Washington, D.C., nearly seven years ago. It has become a haven for luminaries.

Before the partners opened their restaurant (which is named for their grandfathers), they developed a mailing list that included celebrities from Capitol Hill to Beverly Hills. The two sent 600 of those people a survey on dining preferences—whether smoking sections were preferred over nonsmoking, for instance, or booths over chairs. Respondents were promised they'd get a free bottle of champagne on their first visit.

As the partners hoped, the effort generated interest (525 surveys were returned) and, later, business.

Since then, the restaurant has attracted frequent travelers—some of them celebrities—through airline-magazine ads jointly sponsored by various Washington restaurants. Another magnet for celebrities has been a large charity event that the partners host each year.

Sternberg says that by developing good relationships with the concierges of fewer than a dozen select local hotels, the restaurant has been able to meet most well-heeled visitors' preferences and special requests.

Getting repeat business from such customers depends, of course, on offering superior food—Sam & Harry's has won many awards for its cuisine—and on a certain type of service. The cornerstone of that service, Sternberg has found, is discretion. "In Washington, our clientele want to know that they can have a business lunch or dinner and not have it in the papers the next day," he says. Discretion is addressed in the restaurant's training manual and during



The special at Sam & Harry's—an upscale Washington, D.C., restaurant owned by Larry Work, left, and Michael Sternberg—is service with discretion for the well-heeled and the well-known.

each employee's first week on the job.

The training also builds strong telephone skills. For example, when a hotel concierge called to say that actor Nicolas Cage was looking for a restaurant that served flank steak, the Sam & Harry's employee who answered the phone readily agreed to provide it even though flank steak was not on the menu. Cage dined at the restaurant

that night and returned the following two nights, ordering flank steak each time.

Although some restaurants pick up the check for celebrities as an enticement for them to visit, Sternberg long ago decided against doing that. The reason, he says, is that celebrities can afford to pay. And the policy doesn't appear to have hurt business.

EXPERTISE

Finding An Interim Manager For Your Firm

Hiring an interim executive for a defined period could be just the right move for a small company that has a specific short-term need but does not have the talent on staff to meet it.

The principal reasons for bringing in such a management specialist are to convert or upgrade computer systems, consolidate financial processes, relocate

manufacturing, implement productivity programs, or redesign human-resource functions.

The experience can be good for the business and the executive, provided a few pitfalls are avoided, according to John Thompson, CEO of IMCOR, Inc., an interim-management company in Stamford, Conn. He offers this guidance:

■ Evaluate the result you want to achieve. You'll pay a premium for such short-term work, and you'll be charged an

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agency fee. Will the result outweigh the cost?

■ Use a written contract that spells out the terms of the arrangement and exactly what is expected of the interim executive.

■ Take the opportunity to use the executive as a mentor to employees.

■ Regardless of how long the management specialist is to be with the company, take steps to remove concerns among other employees that the manager may be a threat to them. Inform employees of the specialist's credentials and mission.

■ Be prepared to give the person the freedom to get things done. Otherwise, results will be disappointing. ■

PUBLIC RELATIONS

A Fitting Way To Get Free Publicity

Getting free write-ups in newspapers and magazines is something most companies hope for and work hard to achieve. Loon Mountain Park, a family resort in Lincoln, N.H., has developed a technique for getting such publicity that has proved effective over the years. The key is to provide information in a way that's helpful to the media.

Every year the company sends press kits to travel and resort magazines, newspapers, and radio stations. The kits include 11 sheets of paper, each highlighting a different feature of the park. The idea is to make it easy for busy editors to select items of the right length and subject matter—which improves the chances that the information will be used.

Each sheet is self-contained, with the resort's hours of operation, contact numbers, prices, and other relevant information. Topics include the resort's retail shops, mountain-bike options, festivals, and trail rides as well as a park overview and information about package tours.

At the top of each sheet are two critical pieces of information: the subject of the feature and the length of each item, ranging from 166 to 535 words. In addition, each sheet is a little shorter in height than the one behind it, allowing editors to see at a glance the information at the top of each sheet.

You can find other ideas about how to promote your business in these books:

Big Ideas For Small Service Companies, by Marilyn and Tom Ross; available from Communication Creativity for \$15.95 plus \$3 shipping; (719) 395-8659.

The Common Sense Guide To Publicity, by John DeFrancesco and Gary Goodfriend; available from their Chicago public-relations firm for \$14.95 plus \$2 shipping; (312) 644-4409.

The Consultant's Guide To Publicity, by Reece Franklin; available from John Wiley & Sons for \$19.95 plus \$2 shipping; 1-800-225-6945. ■

EMPLOYEE MORALE

Parents' Day At The Office Is A Team Builder

Nothing builds teamwork or generates enthusiasm among employees like knowing their parents are coming to see their work. Those were unexpected benefits when such an event was proposed and conducted by

gave the workers a budget of a few hundred dollars to buy lunch for themselves and their parents. The group designed and sent out humorous invitations.

Parents came from throughout Minnesota and neighboring states. The agenda included a presentation showing the kind of work done by the group, a tour of the agency, and a light-hearted exercise in which the parents described their own hobbies and activities. Later, everyone viewed a display of samples of each employee's work.

The day "was a great morale builder and a team builder," says Dupont. "It became important to everyone. You know, people are going to talk about [that day] for a long time, instead of the usual water-cooler gossip. And I got some of the nicest thank-you notes from their families."

Dupont concedes that at first he found it a little hard to accept that no work



PHOTO: GUY WOOD

The sense of teamwork increased at The Edison Group design firm when employees brought their parents in to see their work. Planners of the event included Managing Director Tom Dupont, Creative Director Jo Davison, left, and writer Lynn Purcell.

employees at The Edison Group, the graphic-design division of Martin/Williams, Inc., a Minneapolis advertising agency.

Over lunch one day, the tightly knit group of 12 workers—all about 30—noted that many of their parents didn't understand just what their sons and daughters do for a living. So the employees asked Tom Dupont, the group's managing director, if they could invite their parents to the office to show them firsthand.

They settled on a Friday, and Dupont

would get done from 11 to 4:30 that day. But the event went so well that he has approved another one for the summer. "What we have learned is that work and life blend. People don't go to work and leave all their troubles behind. . . . You've got to be able to step up and say, 'Let's be nonproductive today.'"

For such an event to succeed, Dupont says, it must be a proposal from employees rather than a dictate from company managers; it must have the employees' enthusiastic participation; and it must be fun. ■

NB TIPS

Campus Connections

Though use of the Internet as a job-finding tool is increasing, college students still find a well-designed, information-packed brochure to be the most effective medium for learning about a company and its job opportunities.

That was one of the findings in a survey of 1,600 juniors, seniors, and graduate students conducted by Bernard Hodes Advertising, Inc., in New York City. When asked what makes a company's brochure outstanding, students said it comes down to

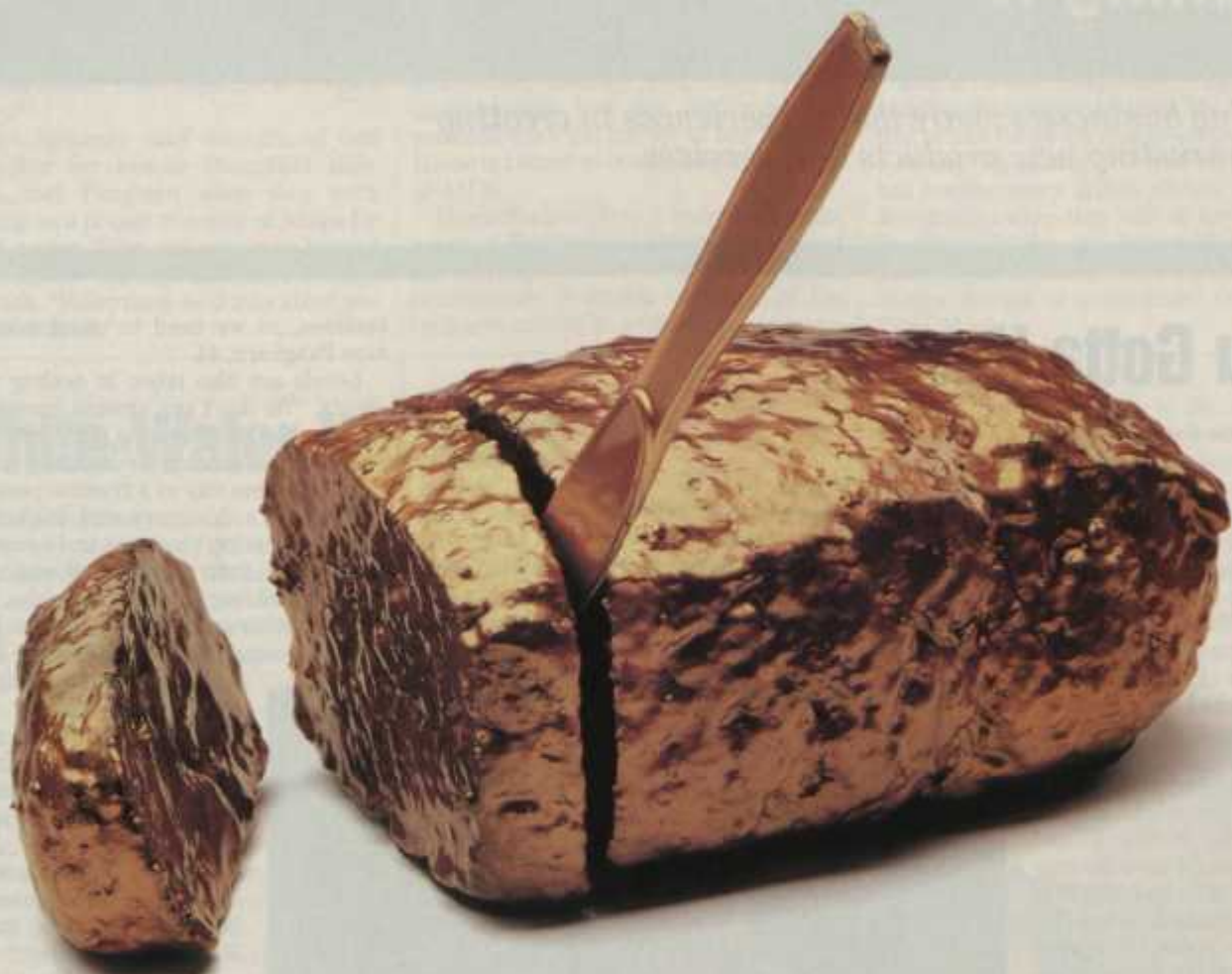
hard facts about the firm and the jobs it has available. What they don't need, they said, is "fluff" about a firm.

Directory Assistance

The latest *Directory of Minority & Women Owned Business Enterprises*—a listing of the 500 companies that are members of the National Minority Business Council, Inc., which develops programs for small businesses—is now available. The \$125 book can be bought from the publisher, Kendall/Hunt, by calling (212) 573-2385. ■

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Making It

Growing businesses share their experiences in creating and marketing new products and services.

You Gotta Have Art

By Megan Swoyer

He was 10 years old when he boarded a plane in his homeland of South Korea to come to the United States to meet his adoptive family. "To me, America promised to be like Disney World. I had never seen it, but I had learned and heard a lot about it," says Dominic Pangborn, who was adopted by a Jackson, Mich., family in the 1960s.

Chances are that the little boy, whose birth mother thought he would have a better life in the United States, would have become a farmer if he had stayed in the tiny Korean village. Instead, he spent the second decade of his life with his Michigan family and became intrigued with colors and art.

By the time he graduated from the Academy of Fine Art in Chicago, Pangborn already had apprenticed in a design firm. He then moved to Detroit and began his career at a multimedia company, where he designed promotional materials for the 75th anniversary of Ford Motor Co.

In 1984, using personal savings, he launched Pangborn Design, a company that now has \$3 million in annual revenues. Pangborn's team of 13 employees designs everything from company logos and annual reports to restaurant menus.

Pangborn relies on a simple management style. He doesn't believe in a multi-level reporting structure; everyone on his staff reports directly to him. In fact, in his headquarters in

Detroit River Town, a historic district undergoing revitalization, just east of the city's massive Renaissance Center, the only levels one finds are among the open offices tucked in and around staircases, lofty corners, and catwalks. No cubicles allowed. "We're in the communications

business, so we need to communicate," says Pangborn, 44.

Levels are also taboo in dealing with clients. "We don't put account executives between the client and the designer," says Pangborn. "Account executives don't think the same way as a creative person."

Pangborn's designers and marketers, typically wearing bluejeans and sweaters, work amid their prized possessions—festive twinkling lights, old bicycles, and antique tables and lamps—as well as with the latest computers. The offices are filled

with dozens of awards for excellence in design.

Some of Pangborn's notable clients include Knart Corp., Procter & Gamble Co., Pharmacia & Upjohn Inc., Xerox Corp., Blue Cross and Blue Shield of Michigan, and Wolverine Worldwide, which makes Hush Puppies shoes.

Pangborn believes that businesses need art. "Design is one of the most critical assets for companies," he says. "Company logos, themes, annual reports, image—those help to communicate a company's mission. Design helps to define what a company is."

Much of his success comes from making the most of what he calls "happy accidents," such as the time a textile client asked him to design some neckties. The client loved them. Today, thousands of Pangborn's colorful, dapper ties—available at Nordstrom, Saks Fifth Avenue, Marshall Field's, and other department stores—spruce up workday attire.

So what does it take to be



PHOTO: USATA PHOTO-BLACK STAR

A "happy accident" turned into a line of colorful ties for Dominic Pangborn, who owns a Detroit design firm.

both an inspiring artist and a skilled business person? "When I am talking to a client," says Pangborn, "I understand their financial needs. Their objective is to make money."

Dave Richards, chief executive of Golf Marketing Services in Bloomfield Hills, Mich., met Pangborn when they were working on a project to create an image for a golf course. "The guy goes way beyond what anyone expects him to do," says Richards. "Everything he thinks about and creates is fresh."

Pangborn is also an advocate of community involvement. His Wellnesswear line, available at Saks Fifth Avenue and through mail order, includes ties, teddy bears, cummerbunds, bow ties, and more. All proceeds from the line go to the Wellness House in Detroit to benefit people with HIV or AIDS.

Diversification plays a major role in the house of Pangborn. In October he opened the Heritage Gallery at his River Town headquarters to exhibit the works of Detroit-area artists. In addition, he maintains

a tiny gift shop on site where shelves brim with colorful Pangborn-designed china and tableware.

Rising above dilapidated, abandoned buildings and potholed streets, the building that houses Pangborn Design—it used to be a factory for plating refrigerator racks—has become every artist's dream. "People are shocked when they walk in here," says Pangborn. It's his own Disney World. ■

Megan Swoyer is a free-lance writer in Troy, Mich.

White-Water Wonders

By Kelly Williams

Andy Zimmerman, 40, and his partner, John Sheppard, 38, are not typical business owners. When they greet you at Wilderness Systems, Inc., they're clad in shorts and T-shirts. You sense that they don't take themselves too seriously.

Yet in 1995, their company was named the No. 1 manufacturer of kayaks in the country in a survey done by *Canoe & Kayak* magazine of 1,200 specialty retailers, who voted on five criteria. Pretty impressive for a firm that, according to Zimmerman, "was started on a song and a dance."

In 1986, the two were working at the Zimmerman family's furniture-manufacturing plant in High Point, N.C. During off hours, they would spend their time kayaking. But they didn't like the low-performance boats on the market, so they built one of their own. Soon after, Sheppard quit the company. "I was just hanging out, rock climbing," he remembers.

Aware of a void in the kayaking market, Zimmerman quit his secure future with the family business and teamed up with Sheppard to launch Wilderness Systems, a manufacturer of custom-built, high-performance kayaks.

For financing, the two "scratched, scraped, and borrowed" from friends, family, and a bank, says Zimmerman. They set up shop in a 12-by-20-foot shed in his back yard, he says, "with the intention of making one kayak at a time."

After building one, they would carry it to area retailers in hopes of finding a buyer. Robert Levine, owner of Pro Canoe & Kayak, Inc., a dealer in Greensboro, N.C., recalls that in the early days, when he sold a boat, he would call Zimmerman and Sheppard and "we would have a party."

Annual sales are now about \$19 million.

Kelly Williams is a free-lance writer in Charlotte, N.C.

With Zimmerman as president and Sheppard as vice president, the company employs 98 people and occupies a 60,000-square-foot facility in High Point.

Their commitment to innovation has earned Zimmerman and Sheppard respect

ylene, a substance similar to the material from which milk jugs are made. The technology has enabled the company to sell the WindRider for half the price of a fiberglass model.

Neil Wiesner-Hanks, executive director of the North American Paddlesports Association and of the Trade Association of Sea Kayaking, both in Mequon, Wis., credits Wilderness Systems with doing a "superb job" of building entry-level boats to bring people into paddle sports. "Essentially," he



Their commitment to innovation and high performance kept John Sheppard, left, and Andy Zimmerman afloat in the kayak industry and made them the favorite of retailers.

in the industry and has allowed them to diversify by developing new products, such as their latest creation, the WindRider. Resembling a catamaran, the WindRider is a trimaran—with three hulls instead of two—designed for use in salt water. The paddler sits in the middle hull, which resembles a kayak but has a sail attached.

Although there are other trimarans on the market, the partners say the WindRider is the first one made from polyeth-

ylene, "the company is building its own market."

Despite the company's success, Zimmerman is cautious about growth in kayak sales in the next year. He says he has witnessed a decline in the market for a rival—the canoe. The company may be tested if the market for kayaks goes flat. But with the success of the WindRider, Wilderness Systems should continue to enjoy smooth sailing. ■

COVER STORY

Leadership For The New Age

By Sharon Nelson

After he retired from the Army as a colonel, Verle B. Hammond started Innovative Logistics Techniques, Inc., known as Innolog. Since that day eight years ago, his McLean, Va., logistics engineering services company has grown to 400 employees. Hammond expects it to do \$43 million in sales this year and about twice that amount by 2000.

Fran Sussner Rodgers, who recognized a need for companies to help employees balance their personal and business lives so they could be more committed to their work, started Work/Family Directions (now WFD) in 1983. Today the Boston consulting company has \$65 million in annual revenues and 400 employees. Rodgers, meanwhile, has played a major role in shaping how American corporations support employees in solving problems outside the workplace.

Will Raap of Burlington, Vt., saw a need to meld business goals with social responsibility. His firm, Gardener's Supply Co., founded in 1983, is now a leading mail-order supplier of gardening tools and equipment as well as a manufacturer, wholesaler, and retailer. Raap expects revenues to reach \$25 million this year. He also has spearheaded the agricultural revitalization of a 1,300-acre site that was prime farmland in Ethan Allen's time but had become a dumping ground for abandoned automobiles, old tires, and leaking car batteries.

These very different business owners have one thing in common: They are exemplary leaders—for the 1990s and for 2000 and beyond. They are poised to meet the challenges of the new millennium with a spirit that will move their companies forward.



PHOTO © GORDON H. BARNES—BLACK STAR

Creating a greater sense of purpose for an organization is one of the jobs of a leader, says Will Raap, founder of Gardener's Supply Co. in Burlington, Vt.

Such leaders shake off or resist older concepts that might have been effective in the past but that don't fit the future.

A New Atmosphere

Anil Nanji, who with his father purchased Magnet Sales & Manufacturing Inc., a Culver City, Calif., company, in 1981, is among those who have shifted from leadership styles of the past. Nanji, 41, was propelled into the top leadership role with the company, which designs and manufactures magnet systems for research and industry, when his father died after a heart attack four years ago.

"He was a very dynamic person, very energetic, very committed, and actually a very good role model in many ways because he was very much on the straight and narrow. He always had a lot of integrity," says Nanji. But while he admired

his father, Nanji found that he could not adopt his father's style of leadership.

He recalls his father as a hard-driving "Type A" personality who tended to be erratic. "Things could change on a whim—on his whim," says Nanji. There was more fear under his father's rule. "People could be called on the carpet."

Nanji sought to create a different atmosphere. "I think the most valuable thing that we have is energy and spirit," he says. "It's my job to try to create an environment in which these can flourish and these can be unleashed." The ultimate goal, he explains, is happy customers. "And to have happy customers, you've got to have employees who are energized."

Also, Nanji aims toward an environment in which employees "feel like they've accomplished not only the business goals but their own personal goals."

To meet the challenge of rapid change, bright new leaders must be flexible yet still draw on deeply held values.



A different kind of work force, and the information that has been made available by technology, called for a different type of leadership at Magnet. In the early 1980s, Nanji says, "people were being told what to do and given a lot of guidance." Now the company's work force is more "internally driven," he says. Now they are told "this is where we're going," and they figure out for themselves how to get there, he says.

While Nanji is hesitant to say his leadership is responsible for improved company performance, he says that in years past the firm's sales grew by 10 percent to perhaps 15 percent annually; in recent years, however, sales have grown more than 20 percent a year, to \$14 million.

"I think people feel a certain sense of freedom about what they can do," he says. "I think it's given people a greater sense of control over their working life here, and possibly that has added to the success."

Restructuring The Pyramid

The emergence of Anil Nanji and other successful nonautocratic leaders supports the findings of a study released last fall by Korn/Ferry International, a worldwide executive-search firm. The study forecast that the all-powerful, controlling boss—or "controllasaurus"—would be extinct within a decade.

Shorter product life cycles, intensified competition, and corporate globalization, said the study, are making the present style of leadership—centered on one person at the top of a hierarchical pyramid—increasingly counterproductive.

The study, which examined 160 international companies and included in-depth interviews with 75 senior executives, indicated that within 10 years only 14 percent of these companies will be run by one leader and that in more than 60 percent the greatest influence will come from a team of leaders.

Putting It In Words

How do today's new leaders and leadership thinkers define leadership? It is "less and less seen as something that you do to em-

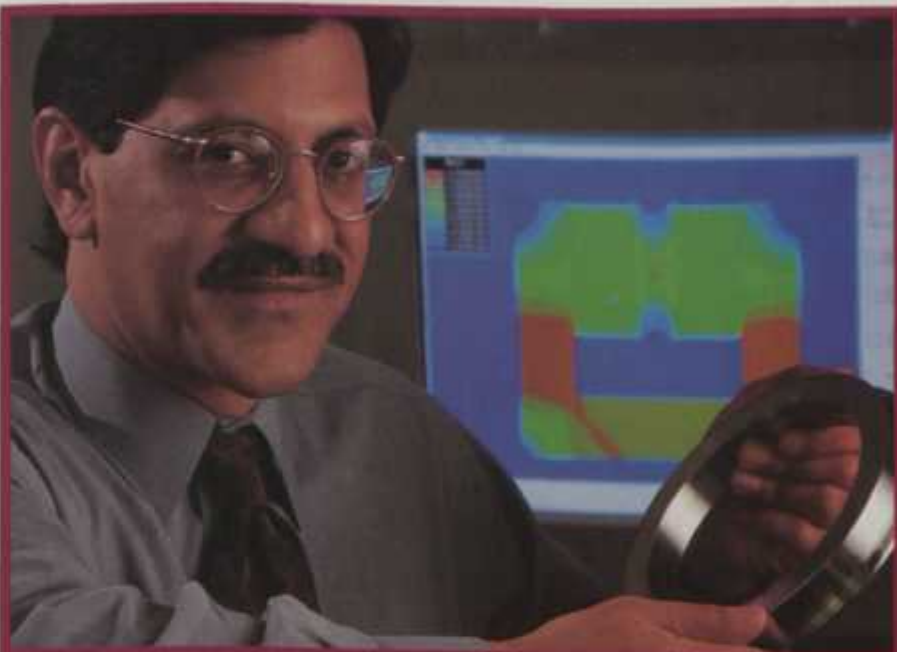


PHOTO © GARY SARTWICK/SMW

When he succeeded his father as head of Magnet Sales & Manufacturing Inc. in Culver City, Calif., Anil Nanji had to develop his own style of leadership.

ployees in a kind of autocratic way or for them in a benevolent-despot kind of way. It's really more and more something you do with people," says Mary Dingee Fillmore, an organization-development consultant in Burlington, Vt. A leader, she says, is no longer someone way ahead of the pack but "more a weaver of different strands, of people's needs and of their capabilities and of a mission."

In the foreword to *The Leader of the Future* (Jossey-Bass Publishers, \$25), a collection of essays by experts on management and leadership, management thinker Peter F. Drucker says, "The only definition of a leader is someone who has followers." He says leadership is characterized by results—that is, by the followers doing the right things. Because they are highly visible, leaders set examples. "Leadership is not rank, privileges, titles, or money," he says. "It is responsibility."

Raap of Gardener's Supply says leader-

ship is "something to do with helping clarify the destiny of an organization and creating the combination of intention, will, resources, and commitment to achieve that. It has mainly to do with trying to see how the component parts can add up into more than a total of just those component parts."

Raap says that as a leader he tries to create a "greater sense of purpose for the organization," something that will give him and his people "a sense of additional reason for putting the effort in."

Rodgers, 50, whose WFD, once best known for its child-care referral services, consults with major companies on a broad range of management issues, says: "I think the purpose of a leader is to make people feel connected to a whole and to have people behave as though they belong to a common community." Creating a sense of community, she says, "is going to be more important in the future because the only way you can compete in the world today is

COVER STORY

to have more people take more responsibility at lower levels of the organization."

Roger Stedronsky, president of Motivation Media Inc., a 70-employee corporate-communications firm in Glenview, Ill., says: "The leader clearly has the visionary attributes to be able to envision the future and what the journey is going to be like. And if [the leader] creates that visual impression for people and sets perfor-

opportunity." Management, he says, has more to do with fulfilling the plan that has been set out for you. There's a dance that goes on between the two, he says. "One is always informing the other."

And although a company needs both, says Rodgers, it's not necessary that management and leadership abilities reside in the same person. "Some people are more skilled at executing, and some people are

a military leader does not face. Hammond says he has not changed his leadership style since moving from the military to business.

That style revolves around "being very sincere, very concerned about people and how people react to things, and not being autocratic—demanding but not autocratic."

The Challenges

During periods of peace in organizations, says management consultant Judith M. Bardwick of La Jolla, Calif., people don't need or want much leadership. Management will do. But businesses have been operating under conditions of warfare—that is, change, crisis, and urgency—since the early 1980s, and "wartime leaders" are required, Bardwick writes in an essay in *The Leader of the Future*.

Technology, Bardwick points out, "has created a borderless world and, increasingly, a borderless economy" in which distance and time are becoming less and less important. "The result is that everyone has lost or will lose the protection [that] distance and time afforded," she says.

"More and more, it really doesn't matter where work is done," Bardwick says. "This results in increased opportunities and increased competition. In a borderless economy, you can reach new customers, but just as easily, your competitors will have easy access to your customers."

Bardwick identifies wartime leaders as "people who embrace major change because they see far more opportunity than threat in turbulence." Business owners know just what she is talking about. And they say the major challenges they face as leaders now and into the next century arise in the following areas:

Constantly Accelerating Change

For some business leaders, it seemed to begin with the introduction of the fax machine. Now communication through computers adds to the urgency. "Just managing the speed with which people expect things to be done is going to be a very big issue," says Magnet Sales' Nanji. "It is already a big issue."

Raap of Gardener's Supply has watched his market change drastically in the past decade: Gardens are much smaller, but more people are interested in gardening. He wants to create a "learning environment" that will help his entire company anticipate the "emerging behaviors and interests in the marketplace."

Raap says the company has always wanted to have an "alive and supportive corporate culture." Now he thinks the cul-



PHOTO © RICHARD HODGES

WFD founder Fran Sussner Rodgers hired a president to handle day-to-day management, but she's still the leader, creating "excitement and energy."

mance standards along the way, people will know that they're doing a good job and that they're achieving the success that's envisioned for them and for the company."

A leading thinker on healthy organizations, Robert H. Rosen, says in his book *Leading People: Transforming Business From the Inside Out* (Viking, \$24.95) that many organizations suffer a "crisis in commitment. People are not working at their full potential."

One of the challenges for the leader is to inspire what Rosen calls "discretionary effort," namely "the effort workers put in above and beyond 'just doing their job.'" When workers choose to do this often enough, says Rosen, "the power it gives an enterprise is truly awesome."

Business owners often distinguish between being a manager and being a leader. Sometimes, they say, the roles merge and blur, but they are still different.

"Leadership," says Gardener's Supply's Raap, 47, "is about striving for, it's about anticipating, it's about reaching, it's about almost yearning and creating a sense of

more skilled at creating excitement and energy," she says.

Rodgers thinks she's a better leader than manager, and when she thought that her company outgrew her management skills, she hired a president to handle day-to-day management.

"Leadership is the magic ingredient that enlivens management and gives managers a reason to go forward," says consultant Fillmore. "I think it's possible to be an excellent manager without being much of a leader, and vice versa."

While one might think that leadership in business is far different from leadership in the military, Hammond, who is 63 and served in the Army for 28 years, says that's not true. In both spheres, he says, the role of the leader "is to get other people to do things."

The challenges, however, are significantly different, Hammond says. The military leader may have to get people to be willing to die for a cause. But in business, he says, the leader has the challenge of "profitability and bottom-line issues" that



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COVER STORY

ture needs to be more dynamic—perhaps “alive and burning.”

Globalization

In the mid-1980s, Motivation Media opened an office in Taipei, Taiwan, but the effort failed. Even though Stedronsky could see that Asian high-technology companies needed services like his to improve their ability to communicate with potential U.S. clients, the Asians couldn't see it, he says. But he knows he needs to get back into the global market and is beginning to establish a presence on the Internet's World Wide Web.

While Hammond of Innolog says he is “tentative about getting into any real foreign business,” he knows that doing so will be part of the company's future. Initially, he says, Innolog's office in Jacksonville, Fla., might provide a base of operations for work in the Caribbean.

Technological Change

A leader has to view technology as an “enabler” and must be open to what it can do, suggests Stedronsky. Originally, he and his partner, his brother, Frank, thought Motivation Media would serve the Chicago area. But now, because of technology, he says, more than 50 percent of the company's clients are outside the area—many on the East Coast. The challenge is to keep up with technological advances and put them to use.

Another challenge will be to deal with unexpected and unintended consequences of technology. For example, technological developments raise generational issues that may affect the workplace.

Addressing a recent conference of the Family Firm Institute, Sherry Turkle, a professor of the sociology of science at the Massachusetts Institute of Technology, said there is a difference in “habits of mind” between those who have grown up with computers and those who have not. Members of the older generation understood the rules and used them to learn, she said. They looked underneath the surface, like opening the hood of a car, and learned to think, measure, criticize, and judge.

Today's children, who grow up with simulation, don't look beneath the surface or behind the screen, said Turkle. They find out how to play a computer game not by learn-

ing the rules first but by playing the game.

When you learn from simulation, she said, you may not be learning to think about what you're learning—that is, to understand the nature of simulations and their distortions. It's like not understanding the words you read, she said, and that amounts to “functional illiteracy in the world of simulation.”

Whether it's because of the computer or



PHOTO: T. MICHAEL REZA

Work-force diversity is a major challenge to today's leaders, says Verle Hammond, founder of Innolog, a logistics engineering firm.

for some other reason, Nanji says, the “outlook on work and what work is supposed to be” among younger people hired by his firm “is different from [the views of young new hires] of even a few years earlier.” These young workers seem to want an atmosphere that is looser and not as disciplined, similar to what they see on the Internet or MTV, he observes.

“And yet, in the right atmosphere, [younger] people will really do a great job,” Nanji says. The leader's challenge, he says, is to create that atmosphere—one in which they have more control over their lives.

Shifts In The Work Force

Hammond, who is African-American, says that most of the people he dealt with in the Army were white males. Now he leads a work force that includes different races, nationalities, and ages and an increasing number of women in what is still a male-dominated field. It's “amazing” how differently they all think and react, he says. “It's a tremendous resource to have that kind of diversity, but it's a challenge.”

His way of getting the best out of such a diverse group, Hammond says, is “just to listen to them and respect them and understand where the other person is coming from.”

In addition, there's a widening gap between two groups of employees: those who are becoming increasingly educated and those who are not. “That's a real problem,” Nanji says, “because the demands and aspirations of people who are pretty well-educated and pretty much internally driven are very different from those who are looking at the work as a job.”

Shifts in the work force are increasingly accompanied by shifts in the workplace. Rodgers notes that workers are becoming not only more diverse but also more scattered geographically. (Rodgers has employees and contract workers throughout the United States and Canada, and in January she opened an office in London.) The work force will increasingly be a mix of contingent workers, core workers, part-time workers, and people working at home, she says.

Becoming A Leader

For Roger Stedronsky of Motivation Media, becoming a leader seemed like a fairly natural, logical process. In high school he was a class officer and organized a successful community fund-raising event, and he assumed similar roles in college. “I think I recognized early that I had those capabilities, and I was excited to have a chance to stretch and grow and challenge myself,” he says.

But for many, becoming a leader is a process of transformation, sometimes necessitated by traumatic events. Until his father's death, Nanji says, he thought of himself as a manager, not as a leader. The buck stopped with his father. “After he passed away, I began to feel completely responsible for the decisions that I made and whatever consequences those decisions might hold.”

Sometimes autobiographies offer remarkable pictures of transformation into leadership by people who did not seem destined for it. One such book is *No Free Ride*, by Kweisi Mfume (One World/Ballantine

Time Critical.

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The entire furniture order for **a tradeshow** in Kansas City and an appendectomy for the warehouse manager at Alco Furniture Rental in Chicago left Steve Peck in a world of hurt.

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COVER STORY

Books, \$25), a high-school dropout and Baltimore street hustler before he turned himself around. He was elected to the U.S. House of Representatives from Maryland's 7th District and now is president of the NAACP.

Another is *Personal History*, by Katharine Graham (Knopf, \$29.95), who describes herself as a "doormat wife" before she was forced by history into becoming one of the great newspaper publishers of the 20th century.

Some leaders, especially women, acknowledge being uncomfortable with having power over others. The challenge, says Rodgers, is "getting comfortable with what you want to do with what the power of a leader is and using it as a gift and as something that's a responsibility as opposed to having a big ego and just getting on a big power trip."

Becoming a leader is hard work, and being a leader may be even harder. Being

"Nurturing will be a really important part of leadership in the future."

—Entrepreneur
Will Raap

a leader for the future requires a complicated host of attributes. Among them:

Self-Awareness

You have to have "a clear understanding of your own personal, internal core," says Nanji, "because so much of what happens outside is a reflection of that."

Many business owners say self-awareness is the key to understanding the kind of leadership that works best for them. Raap of Gardener's Supply says, "You've got to spend some time on yourself, reflecting on what's important, making choices

about who you are and how you behave, understanding where your ego starts and stops and where it's usefully employed or sublimated a bit."

Ability To Handle Change, Uncertainty, Chaos, And Ambiguity

Too much rigidity and too much stability are death to an organization, says Rodgers. "Now the challenge of leadership is to help [an organization] stay incredibly flexible and stay incredibly almost unstable, but still be enough of a community that people feel like they can come and make a contribution." It also means being comfortable with not having all the answers, say other business owners.

Having A Vision Of Where The Company Is Going

Nanji, who is of Indian origin but was born in Kenya, calls vision "a guiding light" because it helps channel the decisions that

A Guru Ahead Of Her Time

A woman whose ideas were rejected in the 1930s and 1940s is today being proclaimed by Peter F. Drucker, a leading management thinker, as "the brightest star in the management firmament" of her time.

Mary Parker Follett, born three years after the Civil War ended, had the vision, for example, that harmony could grow out of the proper use of conflict. But that notion, Drucker says, collided with a society dominated by men who "knew that the proper use of conflict was to conquer. They did not believe in conflict resolution; they believed in unconditional surrender."

Consequently, leaders in the '30s and '40s found Follett's ideas incomprehensible and even politically unacceptable, says Drucker, who believes Follett was simply too far ahead of her time.

Drucker comments on Follett in the introduction to a book published recently by Harvard Business School Press, *Mary Parker Follett—Prophet of Management* (\$16.95). The book is a collection of Follett's writings and lectures and was edited by Pauline Graham.

As the new general manager of a depart-

ment store, Graham was looking for help in managing a large number of employees when, by chance, she discovered a book by Follett in the Westminster Library in London in 1965. "In Follett, I realized I had discovered my mentor," says Graham, who over the years became determined to bring Follett's work to light.

In 1900, Follett embarked on a career as a social worker in Boston. When she was in her late 50s, she took the insight she had gained in running vocational-guidance centers and began applying it to business in the

1920s, lecturing and writing about management and leadership in the United States and England. She died in 1933.

Eighteen years later, when Drucker showed a first draft of the plan for a management course to Lyndall Urwick, an English management pioneer of the 1920s and 1930s, Urwick said: "What you say about dissent and conflict sounds like Mary Parker Follett."

"Mary who?" replied Drucker. Follett's work had virtually disappeared, at least in the United States, less than a decade after her death.

In the newly published collection of

Follett's work, each entry is commented on by predominant thinkers in the fields of management and leadership. For example, Warren Bennis, the author of many books on leadership, says at the end of a chapter on the subject: "It makes you wince when you sincerely believe, as I do, that what you have written about leadership was already literally bespoken by another 40 years before your precious and 'prescient' sentences saw the light of day."

Follett took the psychologists of her day to task for "assuming that you cannot be a good leader unless you are aggressive, masterful, dominating. But I think not only that these characteristics are not the qualities essential to leadership but, on the contrary, that they often militate directly against leadership."

Among her other observations: ■ "Moreover, we find leadership in many places besides [the] more obvious ones. ... The chairman of a committee may not occupy a high official position or be a man of forceful personality, but he may know how to guide discussion effectively, that is, he may know the technique of his job. ... I think it is of great importance to recognize that leadership is sometimes in one place and sometimes in another."

■ "When leadership rises to genius, it has the power of transforming ... [the group's] experience into power. And that is what experience is for, to be made into power. The great leader creates as well as directs power."

■ "The man who thinks leadership cannot be learned will probably remain in a subordinate position."





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COVER STORY

are made for the company. The vision may not be totally clear, say other business owners and leadership experts, but when your followers have faith in you, they will help you clarify the possibilities.

A Clear Set Of Values

Leadership grows out of the values the leader holds. Among them, integrity is essential. "If you're caught once, that's one too many times, and you've basically lost all your credibility," says Nanji. "You just can't let that ever be squandered."

Says consultant Fillmore: "It is in the expression of one's deepest values that one finds oneself capable of leadership—because a value is something you care enough about to be able to lead from it."

A Desire To Serve Those You Lead

This attribute, says Rodgers, may evolve. When you start a business, she says, "it's so much about you and what you want out of your life and what you want to do. Then, when you start to have many people working for you who really themselves care as



PHOTO © JIM ZUCK

A leader has to be able to "envision the future," says Roger Stedronsky, of Motivation Media in Glenview, Ill.

much as you do about the mission, you feel a responsibility to be successful and to move the organization forward much beyond yourself."

Openness

This can mean a range of things, from being a good student and learner to being a good listener and letting ideas percolate.

"In some ways, I think I never have my own idea," says Raap. "What I have is an

ability to synthesize the thinking and contributions of others." While Raap doesn't actively go out and listen, he says, "what I actively do is try to invite and encourage people's thinking."

Motivation Media was started in 1969 to provide corporations with visual support, such as slides and graphics. Now it's a broad-ranging corporate-communications enterprise providing motivational and training support, and it is heavily involved in supplying its clients high-technology solutions—such as CD-ROMs used in employee training. "It was through listening to our customers and being open to change that the company has evolved and been successful," says Stedronsky.

Trustworthiness

Leaders earn trust when it's clear they are not out to dominate the people they seek to lead, suggests Joseph H. Astrachan, associate director of the Kennesaw State University Family Enterprise Center in Kennesaw, Ga. He says that a follower of such a leader will be able to say: "I trust that they're making decisions that aren't going to harm me, that they'll seek my

Thoughts On Leadership And Leaders

There wasn't one of us who didn't appreciate how the leadership of one passionate and focused man had lifted us above the limited possibilities we saw for ourselves.

—Kweisi Mfume, president of the NAACP, on Arnette Evans, who organized a drum-and-bugle corps for black teenagers when Mfume was a boy on the streets of Baltimore

Integrity in all things precedes all else. The open demonstration of integrity is essential; followers must be wholeheartedly convinced of their leaders' integrity.

—Max De Pree, former CEO of Herman Miller, Inc., and author of *Leadership Jazz*

Leadership and learning are indispensable to each other.

—John F. Kennedy, in remarks he was to deliver at the Trade Mart in Dallas on Nov. 22, 1963

When the tyrant has disposed of foreign enemies by conquest or treaty, and there is nothing to fear from them, then he is always stirring up some war or other, in order that the people may require a leader.

—Plato (c. 428-348 B.C.), *The Republic*

Effective leaders reward dissent, as well as encourage it. They understand that whatever momentary discomfort they experience as a result of being told from time to time that they are wrong is more than offset by the fact that "reflective back talk" increases a leader's ability to make good decisions.

—Leadership expert Warren Bennis in *Mary Parker Follett—Prophet of Management*

She calls her employees to thank them for everything they do. She takes every job just as seriously as hers.

—Employee John Seardes, a self-described "Cosmo boy," relating what it was like to work for former longtime *Cosmopolitan* editor Helen Gurley Brown

support and my advice when it's appropriate, that they will make decisions that benefit all of us, that they will do so in an impartial way, and that they're willing to sacrifice their own personal gain for all of us."

The Gender Issue

In these times, a discussion of leadership isn't complete without at least touching on gender. Do men and women lead differently?

"Nurturing will be a really important part of leadership in the future," says Raap. "I think that women are inherently better at that."

Consultant Fillmore, whose clients include Raap, says that as we move into the next century, leadership will call more for skills such as listening, facilitating, and nurturing. While men and women can have those skills, she says, they "are drummed into women from an early age in a way that they haven't traditionally been drummed into men."

The Korn/Ferry study's respondents, most of them men, said a combination of so-called feminine and masculine traits is needed. They perceived men as risk takers, self-confident, and highly competitive, while women were seen as stronger in building relationships and being willing to share power and information.



PHOTO: GEORGE JOHNSON-BLACK STAR

Consultant Mary Fillmore, of Burlington, Vt., sees leadership as "the magic ingredient that enlivens management."


Since the beginning of this century, concepts of leadership have shifted, and management fads have come and gone. We have moved from the age of John D. Rockefeller and Standard Oil Trust, the giant of its generation, to

the age of Bill Gates and Microsoft. We have witnessed the era of the efficiency expert as well as the era of total quality management. We have seen command-and-control practitioners; leaders who swore proudly that they didn't get ulcers, they gave them; management by fear; management by objectives; and participatory management.

Today's business leaders are ignoring the fads and are practicing the basics that draw on ancient wisdom—respect, trust, vision, listening, sensing the environment, and acting with courage.

In the sixth century B.C., the Chinese sage Lao-tzu advised leaders to be selfless and to keep egocentricity in check to become more effective. He encouraged them to lead without dominating, to be open and receptive. The wise leader, he said, is like a midwife, not intervening unnecessarily, so that when the child is born, the mother can rightly say, "We did it ourselves!"

The real basics of leadership are enduring. What changes are the challenges. Business owners would do well not to lose sight of the time-tested, timeless basics as they confront the challenges that are evolving today and that will continue to shift in the years ahead.

 To order a reprint of this story, see Page 68.

Leading Resources

There is a wealth of resources on leadership. Here are some of the most thought-provoking and useful:

Books And Publications

Leader to Leader is a quarterly magazine featuring previously unpublished articles by authorities on management, leadership, and strategy. It is produced by The Peter F. Drucker Foundation for Nonprofit Management and Jossey-Bass Publishers. Contributors range from Drucker to other widely quoted management thinkers such as Frances Hesselbein, Rosabeth Moss Kanter, and Peter Senge. For information, call 1-888-378-2537.

The Future of Leadership: Riding the Corporate Rapids Into the 21st Century, by Randall P. White, Philip Hodgson, and Stuart Cramer (Pitman Publishing, \$25). The "white water" in the title refers to the new era of uncertainty, which the authors say is here to stay.

The Leader's Companion: Insights on Leadership Through the Ages, edited by J. Thomas Wren (The Free Press, \$25). An

anthology of commentary on leadership from the sixth century B.C. to the present.

Leading Change: The Argument for Values-Based Leadership, by James O'Toole (Ballantine Books, \$12.50). The author contends that leadership is not about "style" but about values and ideas.

Managing People Is Like Herding Cats, by Warren Bennis (Executive Excellence Publishing, \$24.95). The latest offering by a prolific writer in the field of leadership.

The Drama of Leadership, by Patricia Pitcher (Wiley, \$27.50). A provocative look at what happens when the leaders that companies need—whom Pitcher calls the "artists" and "craftsmen"—get done in by their enemies, the "technocrats."



Programs

TEC (The Executive Committee), based in San Diego, helps CEOs sharpen leadership skills by bringing them together in continuing small groups in their communities to function as an informal board of advisers for one another.

Call 1-800-274-2367.

The Entrepreneurial Leadership Program is a 2½-day session aimed at owners, presidents, and CEOs of small businesses. It is offered several times a year by the Center for Creative Leadership, based in

Greensboro, N.C. The next session is slated for June 7-9 in San Diego. For information, call (910) 545-2810.

The American Management Association conducts several seminars on leadership development in cities throughout the country. Call 1-800-262-9699.

PUBLIC POLICY

The Re-engineering Of Social Security

By James Worsham

Since the first monthly Social Security check was delivered to Ida May Fuller of Ludlow, Vt., in January 1940, tens of millions of retired and disabled Americans have received Social Security checks—\$4.8 trillion worth through 1996.

The \$22.54 payment to Fuller marked the kickoff of what has become the most revered of all government programs, the heart of a safety net meant to help all Americans in their times of deepest need and greatest peril.

Consequently, it has become almost unthinkable for presidents or members of Congress to consider changing Social Security. It has become what some call "the third rail of American politics," a reference to the high-voltage rail on mass-transit systems: Touch it and you die.

Until now, that is.

This year, the debate over the future of Social Security is well under way—among experts and policy wonks, if not the general public—and it has large implications.

"If we don't do something about Social Security's solvency—and soon—it will go bust," says Bruce MacLaury, who headed a Social Security reform study for the Committee for Economic Development (CED), a business research group with offices in New York City and Washington, D.C.

Robert Ball, a former commissioner of the Social Security Administration, offers a less-alarmist view: "The system is adequately funded up until around 2030; after that, current income [to the system] pays 75 percent of expenses." Ball was a member of the 1994-96 Advisory Council on Social Security, which recently put forth three competing reform plans. An advisory council is appointed by the secretary of health and human services every four years to review the status of Social Security and Medicare.

The debate over Social Security is often seen in even larger terms.

"This is the ultimate philosophical debate about government, probably the biggest one since the New Deal," says Michael Tanner, director of the Social

Security privatization project at the libertarian Cato Institute in Washington. Tanner champions a nongovernmental replacement for Social Security.

At the opposite pole is Robert Shapiro, vice president of the Progressive Policy

Previously considered untouchable, the nation's safety net for retirees is now the subject of intense efforts toward reform.

Security benefits in 1996. That's up from 222,000 recipients the year that Fuller first collected, 2.9 million in 1950, 25 million in 1970, and 39 million in 1990.

Those payouts are projected to rise steadily each year, picking up steam as baby boomers—those born between 1946 and 1964—can begin collecting benefits in about 11 years, but critics say there are emerging danger signs for the program that must be heeded to avoid a fiscal and social disaster:

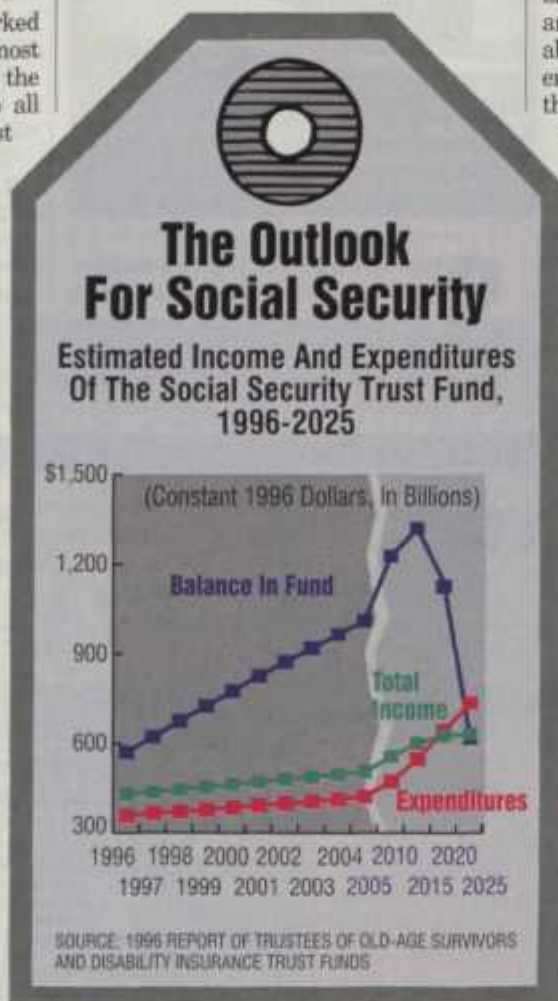
- Americans are healthier and are living longer, creating a bigger and longer demand on Social Security funds. In 1940, life expectancy at birth was 61.4 years for males and 65.7 years for females. Today it's 72.5 years for males, 79.3 years for females. By 2025, life expectancy is projected to increase to 75.6 years for males, 81.5 years for females.

- Fewer workers support each Social Security recipient, adding further fiscal strain. In 1945, 42 workers supported each recipient. Last year, only 3.3 workers supported each recipient, and the support level is expected to drop to 2.2 workers per recipient by 2025.

- Social Security will start to spend more than it takes in by about 2012. Baby boomers will be retiring by then, forcing the program to dip into the trust fund that's now accumulating. (The trust fund consists of U.S. government bonds, or IOUs from the Treasury; current payments are financed with current receipts from the Social Security payroll tax.) Unless changes are made in the system, the trust fund will be depleted by 2029, and payments


will have to be supplemented with general revenues.

Few individuals who have studied the program dispute that some reform is necessary to make Social Security financially viable well into the next century. Some have suggested using techniques that have been used before to shore up Social Security, such as increasing the



Institute, a centrist Washington think tank. "This is not about the role of government," he says. "This is about maintaining the achievements of the most successful social project of the last 50 years."

About 44 million Americans—retirees and their spouses, many disabled men and women regardless of age, widows and widowers, and dependent children of recipients—received \$355 billion in Social



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PUBLIC POLICY

age of eligibility for retirement benefits, raising the tax rates on workers and/or employers, and slowing the growth of benefits.

This time, however, there's a new twist: It's called privatization, or investing at least some Social Security assets or a portion of an individual's earnings in the private financial markets. The concept is along the lines of individual retirement accounts and 401(k) plans.

The idea has been welcomed on Wall Street, which would get not only tens of billions of invested dollars but also potentially billions more in management fees for investing the money, depending on how individual accounts are structured.

Edward Gramlich, dean of the School of Public Policy at the University of Michigan and chairman of the 1994-96 Advisory Council, says some form of additional private-sector savings will be necessary for Americans in their retirement years because Social Security revenues won't be enough. "At some point, we're going to have to shift our way of financing the retirement system to pre-funding. Pay as you go doesn't look so good when growth slows down and the baby boomers start retiring," he says.

Although Congress isn't expected to consider Social Security reform seriously this year—and may even hand it to yet another commission to resolve—proposals to change the system are being discussed widely by commentators and policy analysts in Washington.

Here are some of the elements of the most prominent proposals:

Raising The Minimum Age For Benefits

If the retirement age is raised, individuals would pay into Social Security longer and begin drawing benefits later. Under current law, the retirement age for full Social Security benefits will rise to 67 from 65 gradually over 24 years beginning in 2003. The age for qualifying for reduced benefits would remain at 62, but the reduced-benefit level would fall from about 80 percent to about 70 percent for early retirees as the normal retirement age rises to 67.

Some reform proposals call for raising the age as high as 70. The CED, for example, proposes boosting the normal retirement age to 70 at the rate of two months a year between 2000 and 2030. Other reform proposals have called for different combinations of a later retirement age and an expedited schedule to reach it.

Proponents cite the obvious fiscal benefits but also note that individuals live longer and are healthier longer. In addition, government projections indicate that the labor force that will succeed the baby boomers will be smaller and that older workers may be needed in the early decades of the 21st century.



Social Security Payroll Taxes Over The Years

| Year | Maximum Salary Taxed | Rate* |
|---------|----------------------|-------|
| 1937-49 | \$ 3,000 | 2.0% |
| 1950 | \$ 3,000 | 3.0 |
| 1955 | \$ 4,200 | 4.0 |
| 1960 | \$ 4,800 | 6.0 |
| 1965 | \$ 4,800 | 7.25 |
| 1970 | \$ 7,800 | 8.4 |
| 1975 | \$14,100 | 9.9 |
| 1980 | \$25,900 | 10.16 |
| 1985 | \$39,600 | 11.4 |
| 1990 | \$51,300 | 12.4 |
| 1995 | \$61,200 | 12.4 |
| 1996 | \$62,700 | 12.4 |
| 1997 | \$65,400 | 12.4 |

* Total rate paid by employee and employer, equally divided. Does not include Medicare payroll tax, which began in 1967 and is now levied on all income at 2.9 percent, also equally divided between employer and employee.

SOURCE: 1996 REPORT OF TRUSTEES OF OLD-AGE SURVIVORS AND DISABILITY INSURANCE TRUST FUNDS

Pushing back the retirement age may not meet a lot of resistance from business, either. "We're going to need the labor from our seniors to have a viable economy," says business executive Reg Whitson, who was among the respondents to a recent *Nation's Business* poll on Social Security issues. Whitson is president and chief executive officer of MIN-Ad, Inc., of Greeley, Colo., a small firm that mines and processes minerals for animal feed.

Tax Increases

Each year, the maximum wage that can be taxed for Social Security goes up. In some years, so does the tax rate. This year, the first \$65,400 in wages is subject to a payroll

tax of 12.4 percent, paid in equal shares by the employer and the employee. (The Medicare tax is an additional 2.9 percent, also shared equally; there is no wage cap.)

The maximum taxable wage base is raised annually according to a formula that tracks increases in average wages. Some proposals would raise either the tax rate or the maximum taxable wage base—or both.

One of the three proposals put forth by the Advisory Council—Option II—would increase the Social Security tax on workers by 1.6 percentage points to fund individual accounts similar to 401(k) plans that would be invested in private markets. The growth of regular benefits would be slowed gradually for recipients who had been high- and middle-income workers to keep Social Security benefits in line with available revenues.

A rival proposal from another faction within the Advisory Council—Option I—would raise the tax rate by 0.8 of a percentage point each on employers and employees in 2045.

Any tax-rate increase could face tough opposition. But for small firms, the Social Security dilemma comes down to one thing: the tax rate. "It's the only thing that affects us directly, and hopefully that cost won't go up," says Charles Armstrong, president of Capital Nursery Co. in Sacramento, Calif. "It's high enough as it is." The 65-year-old Armstrong, third-generation president of the firm, expressed his views through the *Nation's Business* poll.

Privatization

Social Security's assets are invested in government bonds, but millions of Americans have private pension plans, individual retirement accounts, or special tax-free savings accounts—such as 401(k) plans—through their employers.

Some critics of the system recommend privatization as a solution. In this debate, that term is being broadly defined as investing some or all of Social Security's assets in private financial markets—stocks, bonds, and mutual funds, for example—either by individuals or by the government.

Privatization has attracted support from some small-business owners and opposition from others. "I'm in favor of going to IRA-like savings," says Ernest King, president of King Laboratories Inc. in Tampa, Fla., which tests petroleum for airlines and oil firms. King, another of the respondents to the *Nation's Business* poll, adds: "The idea that we're in this all together is old-fashioned. We can't do that anymore."

The various proposals for privatization



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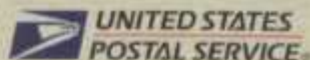
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The Growth Of Social Security

1935

Congress passes the Social Security Act, with pension benefits for workers in "commerce and industry" when they reach 65.

1937

Workers and their employers begin paying a Social Security tax of 1 percent each on up to \$3,000 of wages per year.

1939

Congress expands benefits to survivors of deceased workers—spouses, and children under 18.

1940

First monthly checks go to 220,000 beneficiaries. Total cost for the year is \$16 million. Average life expectancy at birth is 61.4 years for males and 65.7 for females.

1945

There are two beneficiaries for every 100 workers paying taxes into the system.

1950

First increases in monthly benefits and in the tax rate are made. Coverage is extended to employed farm and domestic workers and to nonfarm self-employed individuals.

1954-65

Coverage is extended to professionals by categories.

1956-58

Payment of benefits to disabled workers and their dependents is authorized. Women become eligible for early retirement at age 62 with 80 percent of the benefits they would receive at age 65.

1961

Men get the option for early retirement at age 62 with 80 percent of the benefits they would receive at age 65.

1966

The addition of Medicare to Social Security programs adds a 0.7 percent tax to the total 7.7 percent tax collected—half from the employer, half from the employee.

1975

Increases in benefits and the taxable wage base become automatic under a formula tied to the Consumer Price Index. This arrangement will produce payment increases ranging from 1.3 percent (1986) to 14.3 percent (1980).

1980

Benefits to retirees and survivors of deceased workers exceed \$100 billion.

1983

To shore up Social Security's finances, major reforms recommended by a blue-ribbon panel are enacted, including raising the retirement age in stages to 67 by 2027, taxing benefits paid to high-income recipients, extending coverage to federal civilian workers, and accelerating the tax increases.

1989

Benefits to retirees and survivors of deceased workers exceed \$200 billion.

1993

The amount of benefits subject to taxation for high-income recipients is increased to 85 percent from 50 percent. All wages become subject to the Medicare tax, which is 2.9 percentage points of the total 15.3 percent payroll tax—half collected from the employer, half from the employee.

1996

Life expectancy at birth is 72.5 years for males and 79.3 for females. There are 31 beneficiaries for every 100 workers. Payments to retirees and dependent survivors of deceased workers exceed \$300 billion. An advisory commission breaks into three factions that fail to agree on specifics for dealing with long-term financial problems of the system. All three factions endorse some form of private investment of payments from employers and employees.

—Robert T. Gray

can be grouped in three major categories:

Total privatization of Social Security has been suggested most prominently by the Cato Institute. Cato, which has a set of broad principles rather than a detailed proposal, would privatize the system along the lines of the system in Chile. (See "The Chilean Precedent," on Page 34.)

Tanner, head of the institute's Social Security privatization project, says Cato generally supports a Chilean-style plan under which all Americans would eventually save for their retirement through mandatory personal savings accounts that would be held with private investors. The government would still provide a minimum benefit to all workers, financed from general federal revenues.

One of the three proposals advanced by the Advisory Council—Option III—resembles the Chilean plan. It would funnel about 40 percent of Social Security revenues into personal savings accounts, while the rest would go into a fund to provide a minimum retirement allowance for all Americans.

Small-scale privatization with individual personal savings accounts is part of a number of proposals. Under this approach, an individual would put a portion of what he or she would normally have in Social Security into an account to be invested either by the individual (the Advisory Council's Option III) or by the government in private financial markets (Option II). In some proposals, these would be set up within the Social Security system; in others they would be separate.

The individual would decide how the funds in the plan account would be invested, but a basic Social Security benefit would be guaranteed for all.

Government investments is the approach to privatization taken by another of the three proposals of the Advisory Council (Option I). It would allow up to 40 percent of the Social Security trust fund surpluses that will build between now and about 2012 to be invested in broad-based funds, with managers appointed by the president and confirmed by the Senate.

Compared with having the individual making investment decisions, it would reduce the risk and likely would earn a higher rate of return for the trust fund or that portion invested privately, says the Advisory Council's Ball.

David J. Drury, CEO of the Principal Financial Group, based in Des Moines, Iowa, echoes Ball's concern about how well individuals might invest. He says, however, that educational efforts have produced "a lot of positive signs" that many individuals want to direct their own



investments, but government should guarantee a minimum pension for all.

Still others have reservations about having the government, under Option I, making huge investments in the stock market, even if they're done in broad-based funds by professional money managers.

Slower Benefit Increases

This is perhaps the most sensitive issue in the political debate. Currently, Social Security payments rise each year by the same percentage as the rise in the Consumer Price Index in the July-September quarter, compared with the same quarter the previous year. Last year, that increase was 2.9 percent, so recipients got a 2.9 percent increase in benefits beginning in January.

The CPI, which tracks price increases, overstates inflation by 1.1 percentage

Trent Lott, R-Miss., Senate Minority Leader Thomas Daschle, D-S.D., and Greenspan voiced support for creation of a blue-ribbon commission that would establish a cost-of-living index for Social Security increases, thus ending the use of the CPI for that purpose. The White House at first supported the idea and then backed off.

A lower cost-of-living allowance for Social Security and other entitlement programs is attractive to the White House and congressional leaders because it would make balancing the budget easier. Reducing federal spending on entitlements would lessen the pressure to reduce or eliminate funding for other programs important to their constituencies.

The Congressional Budget Office has estimated that cutting the CPI's growth rate by a percentage point would cut \$140 billion from the budget deficit over 10 years.

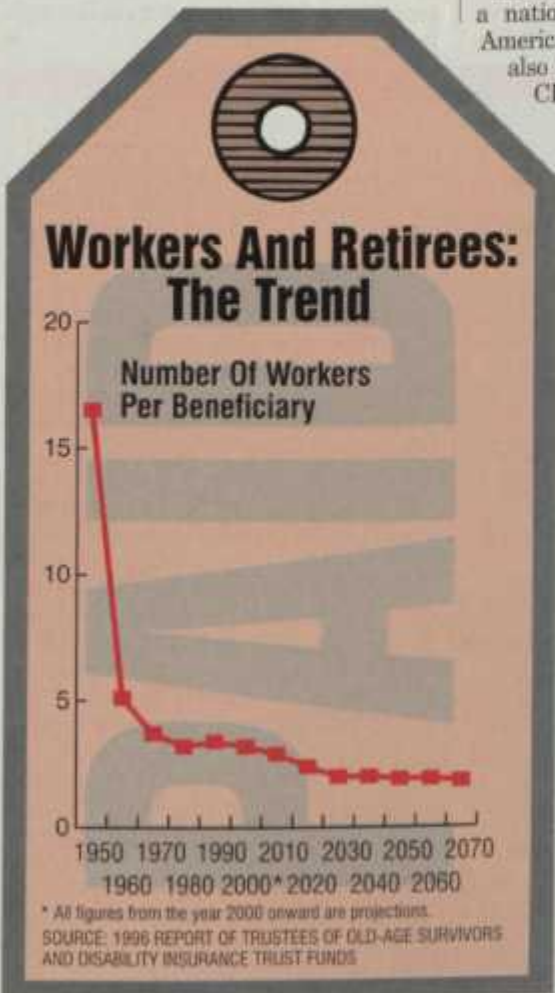
A study conducted by Price Waterhouse, a nationwide accounting firm, for the American Association of Retired Persons also looked at the potential impact of a CPI reduction. The study found that if a reduction of 1 percentage point had been instituted last year, a retired couple receiving Social Security benefits would lose \$150 in 1997, a 0.7 percent reduction, but would see a cumulative loss of \$39,127, or 13.1 percent, by 2015.

Increased Taxation Of Benefits

As a result of a major reform in 1983, up to 50 percent of a recipient's Social Security benefits can be taxed if the person's modified adjusted gross income (the adjusted gross plus half of Social Security) exceeds certain amounts. Legislation passed in 1993 raised that taxable portion for some retirees to 85 percent.

Currently, the portion of Social Security benefits subject to federal income tax is 50 percent if the modified adjusted gross income is \$25,000 to \$34,000 for an individual or \$32,000 to \$44,000 for a couple. The taxable amount rises to 85 percent of Social Security benefits for individuals with total income over \$34,000 and couples with over \$44,000.

One of the three proposals from the Advisory Council—Option II—calls for taxing all Social Security benefits beyond what a recipient actually contributed through payroll taxes during his or her



points, according to a panel of economists named by the Senate Finance Committee. The same assessment has been made by others, including Federal Reserve Board Chairman Alan Greenspan.

In late February, Senate Majority Leader

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work life. The proposal estimates that about 30 percent of the recipients—low-wage earners—would pay no taxes because they are exempt from taxation generally.

Other Suggestions

Among additional proposals for Social Security reform is one that would bring into the system about 3.7 million employees of state and local governments who currently do not participate. Another would raise to 38 years from 35 the period of salary history used to compute a retiree's benefits; proponents say it would reduce benefits an average of 3 percent.

Even if the third rail of American politics can't kill anymore, it can still burn and sting. As a result, there's little sign in Washington that either the president or Congress is ready to jump into the Social Security debate.

"Social Security and Medicare remain exceedingly popular with the American

people, and astute political leaders are going to handle these programs very carefully," says Henry Aaron, a senior fellow at the Brookings Institution in Washington.

But some skepticism about the Social Security system exists among the public,

"Astute political leaders are going to handle [Social Security and Medicare] very carefully."

—Henry Aaron,
Brookings Institution

and polls show that younger Americans are quite doubtful that Social Security benefits will be available to help support them when they retire.

"What could be worse than putting your money into Social Security now if you're

going to retire after 2020?" says Philip Hess, president of Midwest Technical Systems in Arlington Heights, Ill. Hess, whose firm sells and supports computer hardware and software for businesses, was a respondent to the *Nation's Business* poll.

Legislative action on Social Security probably won't occur anytime soon. Right now, Medicare's imminent bankruptcy is the top priority. And there's nowhere near a consensus on what even the broad outlines of a Social Security reform measure should include, let alone the details.

Social Security will start to bleed just about the time the biggest and most influential generation of the 20th century, the baby boomers, starts retiring, between 2010 and 2015.

These post-World War II babies saw their parents and grandparents enjoy a retirement virtually free of poverty, thanks mostly to Social Security. Whether they will enjoy their sunset years in a similar style remains to be seen. **18**

The Chilean Precedent

When radical reform of the U.S. Social Security system is proposed, the talk usually turns to Chile, which has become the marquee example of privatization—or having retirement assets in nongovernmental hands.

The change in handling of retirement assets in that Latin American nation of 14.3 million came in 1981, when the then-military government threw out a pay-as-you-go system heading toward insolvency. Chile's was similar to the U.S. system, in which today's workers finance the benefits of today's retirees.

In its place, Chile set up a system of private retirement accounts; they are funded by mandatory contributions from employees in the form of payroll deductions and are run by heavily regulated private-sector retirement-plan administrators.

"Our reform was a radical, even revolutionary approach, but with a prudent execution," says Jose Piñera, who was Chile's minister of labor and social security at the time. He is now based at the Cato Institute, a libertarian public-policy research organization in Washington, D.C.

Putting the new system into effect required a transition period to deal with the different generations of individuals who would be affected, Piñera said.

Under the transition of 10 to 30 years, retirees already receiving pension benefits from the old system could elect to stay in it. Individuals already in the work force could opt to stay in the old system or shift

to the new system. If they moved to the new system, they would get a transferable credit (called a "recognition bond," redeemable upon retirement) for what they had paid into the old system. All new entrants to the labor force were required to go into the new system.

Today, about 5 million workers participate in Chile's privatized system, and 3.2 million are making contributions regularly. The mandatory 10 percent deduction from their paychecks goes into a private savings account administered by "pension-fund administrator" firms, which are regulated by the government. The accounts are portable—they can be taken from job to job.

About 40 percent of all the assets are in Chilean-backed government bonds, Piñera says. The average rate of return since 1981 has been over 12 percent, including a 2.5 percent decline in 1995.

When workers retire, they can turn their savings into annuities or make scheduled withdrawals. The Chilean government guarantees everyone a "minimum pension," says Piñera, and the government will make up the difference between what retirement accounts provide and the minimum guaranteed pension level.

The transition period is not without its

costs, however. Piñera says that to fund the transition, during which current retirees would be paid under the old system, an additional 5 percent payroll tax was levied on all workers. The tax has since expired.

But Carmelo Mesa-Lago, a professor of economics at the University of Pittsburgh and an expert on Latin America, says the transition period is proving to be a challenge for Chile. "The costs of the transition are enormous," he says.

To fund the transition, the government is drawing on general revenues, Mesa-Lago says, because costs have exceeded expectations.

Even when there are fewer retirees under the old system to receive benefits, the government will still have to honor the "recognition bonds," he adds.

Moreover, he says, many low-income workers are now minimizing their contributions under the new system so they can maximize their government-paid guaranteed minimum pension.

Mesa-Lago also notes that earnings on the privatized pensions could be slower in the future because of the shortage of new investment opportunities in Chile. And, he notes, there's always the possibility of a major downturn in the Chilean economy.

"So far so good," says Mesa-Lago. "But there are serious medium- and long-term problems."



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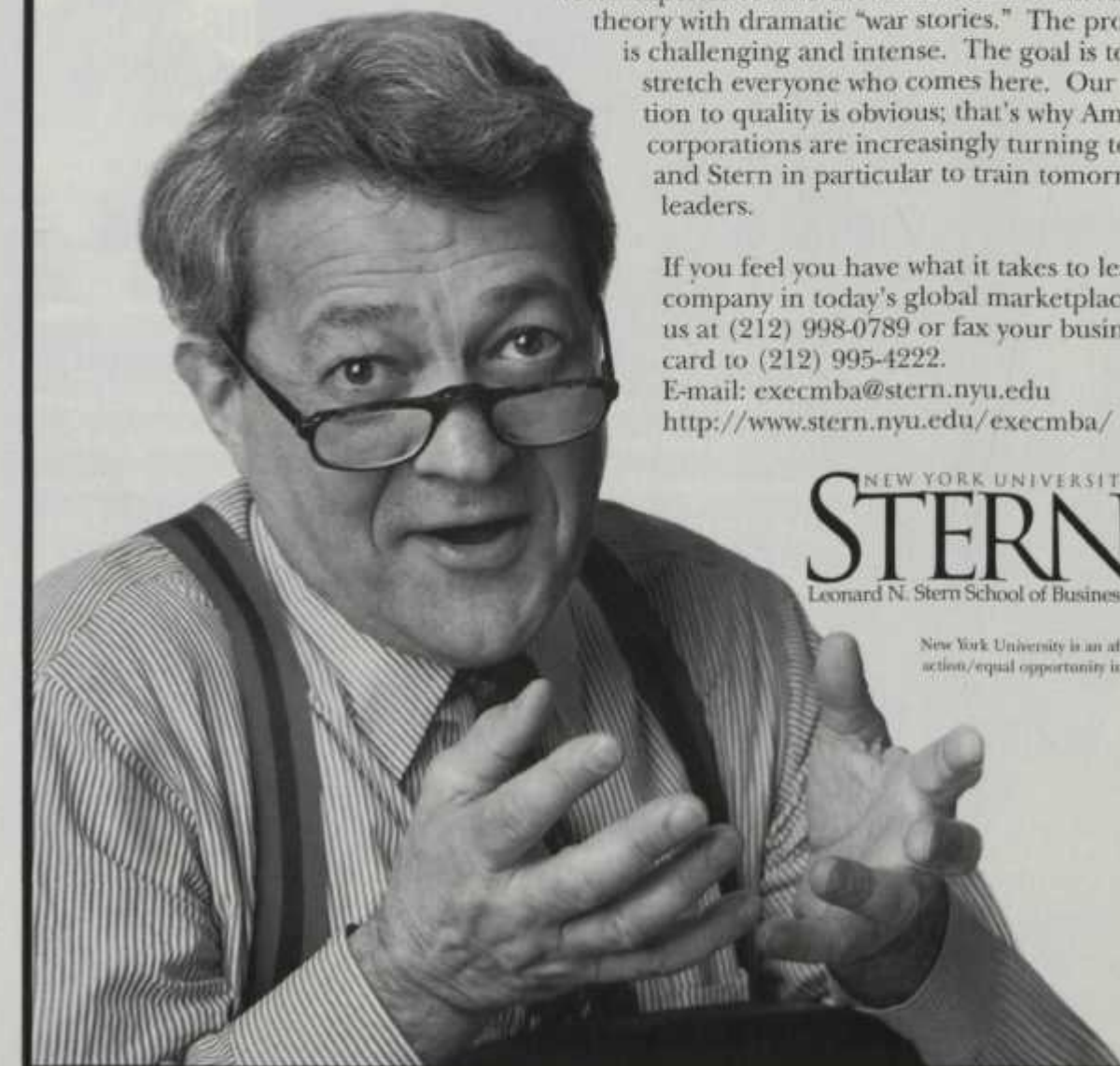
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MANAGING

How To Motivate Low-Wage Workers

By Roberta Maynard

These tactics can reduce turnover, improve customer service, and spur productivity.

Most of the front-line workers at Steve Lauer's eight Subway sandwich shops in northern Colorado are under age 20 and earn slightly above the \$4.75 hourly minimum set by both federal and Colorado law. Missed shifts are a big problem, Lauer says. And turnover skyrockets in June, when college students leave Fort Collins and Greeley—and their Subway jobs—to go home for the summer.

Lauer's situation is one shared by other business owners who depend on entry-level and low-wage workers. And these business owners share another problem: motivating employees to do their jobs better. When employees dislike their jobs or are indifferent toward them, their attitudes can lead to high turnover rates, theft, poor customer service, and low productivity.

When the turnover at Lauer's fast-food operations hit 200 percent a few years ago, he made some changes. Knowing that half his turnover occurred in the first 30 days of employment, he first set out to keep new hires' stress levels down. He remembers his own first day, "standing there in front of a customer, making sandwiches and trying to remember to smile. The first one I did, I forgot to put the meat on."

To put new employees more at ease, Lauer has managers or designated trainers spend 20 hours with workers during their first two weeks on the job.

Managers now evaluate employees at the end of the first 30 days—rather than wait until the end of the first quarter. With each review, workers have the chance to earn more money.

In addition, Lauer began placing special significance on employees' one-year anniversaries. After their first year, workers are

invited to the company's holiday party and summer picnic; they receive one week of paid vacation, a service pin, a Subway sweat shirt, and a different-colored uniform. Employees' longevity with the company is denoted by one of three colors, and it has become a matter of pride among employees to move up a color. The final color is given after a worker's third year.

Lauer also emphasized to store managers the importance of creating realistic job

is 140 percent, according to a 1996 survey by the National Restaurant Association and the Deloitte & Touche accounting and consulting firm.

A Different Set Of Challenges

Turnover is a concern at Leone Ackerly's residential maid service in Marietta, Ga., though she and her 58 franchisees face a very different work-force challenge. Mini Maid Inc.'s typical employees are women



PHOTO: GABRIEL STORER

To stem turnover at his Subway sandwich shops in Colorado, Steve Lauer, second from left, established many pride-building practices for employees. With him are, from left, Kelly Kennedy, Chris Lewis, A.J. Montpetit, and Amanda Sebold.

expectations during the interview process. If workers leave because the job differed from their preconceptions, he says, it means the manager didn't make clear what the workers should expect.

The measures have helped reduce turnover at his stores to 125 percent in each of the past two years. His best stores have turnover under 100 percent.

The average rate for fast-food businesses

in their 20s with little education and few skills. Most come to the job having grown up on welfare, Ackerly says, and many have been abused or battered.

Partly for those reasons, Ackerly's management philosophy since beginning her business 24 years ago has been based on one principle: respect. She has learned, she explains, that many of her workers have never known respect and that get-

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What's new in your world?



MANAGING



PHOTO: STON SOBOLSK—BLACK STAR

Home health aides at All Metro Health Care in Lynnbrook, N.Y., are recognized with gifts and in other ways by the firm's CEO, Irving Edwards, and customer-service manager, Norma Edwards, at desk in background.

ting it changes them for the better.

"Most employers look at them with disdain and don't expect them to stay. As a result, they come [to Mini Maid] feeling that this is just a job and a paycheck," says Ackerly. "But we ask them to look at us as their partners in a team effort. We tell them, 'This is what we give you; this is what you give us.' Right off the bat, the new employee feels that [she is] an important part of our company. What happens at this point is that they begin to listen."

Over the years, Ackerly says, she has watched workers eventually take this philosophy of mutual respect into their own homes and apply it in their family lives.

Workers earn an attendance bonus each pay period if they have gone to work every day on time and in uniform. That gives a little extra motivation and reward, says Ackerly, and it encourages them to go to work and to be responsible.

But Ackerly's approach isn't soft. She hires no one with a police record or a history of drug use, and if a maid is caught stealing, Ackerly will press charges. The maids are expected to be punctual, clean and neat, and polite. They get discipline, standards, and structure. In fact, the company's training manuals are modeled on those used by the Army.

Being fair and honest with employees is returned in kind, she has found. "For seven or eight hours a day, they're in your vehicle, representing you. They're on the clock. If they choose to, they can take advantage of

you in so many ways. But when employees respect their manager, I've found, they won't take advantage."

The Benefit Of Paying Respect

An atmosphere of respect is widely considered by human-resources professionals to be necessary for a happy, productive work force. And in a survey of 966 small and midsize businesses conducted last year by Arthur Andersen's Enterprise Group—a part of the international accounting firm that advises owner-managed companies—63 percent said that conveying respect and

value was an effective way to motivate and retain employees.

Yet failure to show respect to employees is surprisingly common. A recurring complaint among low-wage workers is that their managers don't call them by name, says Rosalind Jeffries, president of Performance Enhancement Group, a human-resources consulting firm in Chevy Chase, Md. "I hear stories that supervisors call workers by gesturing to them and saying, 'Hey, come here,'" says Jeffries. Managers often don't even realize they do this, she says.

A lack of respect also diminishes employees' willingness to participate. Jeffries tells of a group of hospital housekeepers who recently got a new boss after a longtime supervisor retired. For the first time in 15 years, they began to offer suggestions for work improvements. When asked why, the workers said that the new boss treated them with respect, invited them to share in decision making, and always said hello when she saw them—something the previous boss had never done.

Hello And Thank You

Along with respect, low-wage workers crave and thrive on recognition, says Jeffries. "People at the lower [wage] levels beg for the intangibles—the pat on the back, the verbal 'thank you,'" she says. "Self-esteem is a little lower, and they want to know they're OK."

Richard Kerley, president and CEO of Fine Host Corp., a food service in Greenwich, Conn., has found this to be true of the contract workers the company hires to bus tables and cook and serve food. At any given time, the company has thousands

Are Your Workers Unmotivated?

Here are some of the often-subtle signs of discontent within a work force, according to Rosalind Jeffries, president of Performance Enhancement Group, a human-resources consulting firm in Chevy Chase, Md.

■ Staff members rarely participate actively in meetings.

■ Workers display no creativity or innovation.

■ Cliques form.

■ Most people routinely are in a hurry to leave work exactly at closing time.

■ Workers seldom smile—until it's time to leave.

■ Employees shut you out of their personal lives.

■ Workers don't feel comfortable coming to your office.

■ You start to lose people.

If this behavior is prevalent among your workers, says Jeffries, ask a focus group of employees to describe the elements that make up a motivating environment. "It will not be about getting more money," she says. "Employees consistently cite a value-centered, collegial, creative, and responsive environment as factors that cause them to choose and remain with one organization rather than another."

For More Information

These recently published books offer managers a variety of approaches to keeping employees motivated and enthusiastic about their work:

Now Hiring! Finding & Keeping Good Help for Your Entry-Wage Jobs, by Steve Lauer and B. Jack Gebhardt (AMACOM, \$17.95). To order, call (212) 903-8315.

Care Packages For the Workplace: Little Things You Can Do To Regenerate

Spirit At Work, by Barbara A. Glanz (McGraw-Hill, \$14.95).

Turn the Tables on Turnover (Pencom International, \$19.95). To order, call 1-800-247-8514.

The 52 Best Incentives, Contests, and Rewards (Pencom International, \$19.95). To order, call 1-800-247-8514.

Managing To Have Fun, by Matt Weinstein (Simon & Schuster, \$21).

of people working in convention centers, corporate and college dining facilities, and other places. "The truth is that the people who make or break you are the people we're talking about," he says. "It's the employees, not the owner, who drive customers away from a business."

It's important to remember, Kerley says, that "though there may be economic restraints on what we pay them, there are no restraints on the recognition we give them."

Fine Host hands out quality awards and posts workers' names in company buildings to recognize good work. Employees are given framed certificates for completing training courses. But besides those tangible acknowledgments, says Kerley, companies must have a culture that shows people they are appreciated and must have supervisors who "mean it and believe it."

Irving Edwards, CEO of All Metro Health Care in Lynbrook, N.Y., is a longtime believer in recognition for the home health aides he employs. The company sponsors an award for caregiver of the year; and from time to time Edwards sponsors essay contests for workers, complete with prizes. Employees also receive gifts, such as watches and blenders, when they score high in a quarterly training game. Health aides who work on holidays can always count on having food at the office, supplied by the company.

Special Attention

A tough issue that employers such as Edwards face centers on the special needs of many low-wage workers. Difficulties with child care, transportation, language skills, and everyday transactions are common.

Having been in business for 41 years, Edwards and his wife, Norma, the company's customer-service manager, learned long ago that until such needs are addressed, workers can't do their jobs effectively. Their answer was to set up a special "customer-service" department for workers. Three employees are available solely to help workers fill out paperwork to get food stamps, arrange for child care and loans, and handle immigration matters. They provide reference letters, replace lost

checks, give pay advances, and help locate free or low-cost English classes.

"We're always asking workers what we can do differently," says Edwards. For example, he now has paychecks—which used to be dropped off at a post office—taken to the airport, where mail is picked up hourly. The practice cuts up to two days off the time it takes for employees to receive their checks. Efforts like this, Edwards says, help keep the company's annual turnover below 30 percent.

A Place Apart

A final intangible that affects low-wage workers' attitudes and performance is

workplace atmosphere. Mini Maids' Ackerly gives maids a quiet, cheerful place to meet every morning to offset the chaos that many endure in their homes. While their team leaders are mapping out the day's routes, the maids watch training videos or read magazines and have free coffee, soft drinks, and high-protein snacks.

In the next room, each team leader has a chair and notebooks for her exclusive use. Each is also in charge of maintaining the vehicle assigned to her.

The result, Ackerly says, is that they "bloom under that feeling of [having] control and ownership, which many have never experienced."

By contrast, a fun and relaxed atmosphere seems to be the ticket for Lauer's teenage employees. He sees it as positive when his workers talk and joke while they work. Between school and home, he says, work may be the place in their lives with the least tension. When workers stick around after hours, he says, it's a clear sign that they feel a sense of comfort there.

Managing low-wage workers successfully requires sensitivity, common sense, and a good measure of psychology. Making the effort to understand these workers can unlock hidden potential that could be a company's competitive edge. ■



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Capital Pitches That Succeed

By David R. Evanson

When the future of your company depends on an infusion of capital from private investors, it pays to make a good impression.

"Many companies fail to raise money not because they aren't viable, but because they cannot present themselves in a compelling manner," says Ric Klass, managing director of corporate finance for M.S. Farrell & Co., a New York City brokerage and investment-banking firm specializing in emerging companies.

Consider the following studies in contrast:

The founder of a hot new Internet company had a roomful of investment bankers attending a conference and looking his company over with an eye toward backing an initial public offering. To show the financiers just how leading-edge the company's technology was, he opted for a live demonstration directly from his laptop and projected onto a large screen near the speaker's podium.

The presentation started to unravel when the company owner's laptop computer could not connect to the Internet. When the demonstration program then froze, he had to switch off and restart his laptop computer. The whole affair went into free fall as the entrepreneur waited to try the demo again while maintaining a dialogue with the audience.

Suddenly, his leading-edge software looked like bleeding-edge software, and the initial public offering expired on the spot.

By contrast, entrepreneur

Neil Swartz, founder and CEO of Microleague Multimedia of Newark, Del., met investors with a videotaped demonstration of his company's hot new Sports Illustrated Presents sports simulations. Swartz's presentation went off without a hitch.

So did Swartz's initial public offering. He got the capital he needed for expansion, and Microleague now trades on the Nasdaq stock exchange.

Putting together a winning presentation isn't as easy as it might seem. In fact, companies have difficulty in almost every venue where they meet investors, says Klass.

Whatever the forum—a formal dog-and-pony show before a roomful of institutional investors, a clubby luncheon with 10 to 15 wealthy individuals, or a one-on-one meeting with a venture capitalist—founders and senior managers have often shown they can shoot themselves in the foot with deadly accuracy.

It's not the absence of Shakespearean delivery that causes companies to stumble before potential investors, says Bob Shuey, an investment banker with National Securities Corp. in Dallas. "It's a lack of appreciation for the basics of communications."

Following are tips to help entrepreneurs avoid assorted pitfalls when making presentations for investment capital:

Send The Right Message

Many times, says Shuey, a chief executive's pitch to potential investors is no different from his or her pitch to potential customers. This is a formula for disaster, he says, because it says management doesn't know what is

Your presentation to investors can go down in flames unless you tailor your text and keep it well-paced.

important to outside investors.

Topics such as product features, new technology, and customer service—the things that matter to customers—are of interest to investors only as part of an overall menu of competitive advantages that will help drive sales.

"Investors look at the big picture," says Shuey. "They are interested in profitability, market size, competitive climate, marketing operations, new-product development, key personnel, and profit margins." Pitching investors the same way you would pitch prospective customers is ultimately unproductive.

Consider Audio-Visual Aids

Only the most magnetic, experienced public speakers can carry an investor presentation without any visual support, says Klass. If that's not you, then slides or overheads are crucial.

"A company would have to offer the potential of Microsoft to keep investors in rapt attention as the principals droned on for 30 minutes" without visual aids, he adds.

"Keep in mind, however, that slides and overheads should not attempt to convey the story," says Klass. Instead, they should punctuate the speaker's remarks and give the listener a constant source of context for what is being said.

"Where most companies go wrong with visual aids," says Shuey, "is that they try to pack too much information, such as an entire income statement or founder's résumé, onto a single slide."

The net result is that between listening to the speaker and trying to decipher what's on a slide, the investor becomes distracted and does not absorb what's being said.

"Think in terms of television credits," suggests Shuey, "with no more than five bullet points per slide."

In addition, consider using one of the popular presentation-graphics computer programs rather than 35 mm slides. Production is fast and the content can be altered easily with a computer-graphics program, so

"Focus on the specific agenda the investors might have and zero in on the points important to them."

—Ric Klass,
Managing Director,
M.S. Farrell & Co.



David R. Evanson, a financial-communications consultant and writer, is principal of Financial Communications Associates, Inc., in Ardmore, Pa.

changes can be made right up to the time you begin making your pitch. By contrast, it can take 24 hours to make or change a 35 mm slide.

Avoid Live Demos

The story of the Internet company's founder at the beginning of this article illustrates the perils of live demonstrations. As people with sales experience will tell you, the customer has a picture in mind of what the product is and what it's supposed to do. Any uncontrolled situation that distorts that image is ultimately counterproductive to closing the sale.

As a general rule, Shuey won't let his clients make live demonstrations of their products or services to groups of prospective investors. "There's a lot of work that goes into putting a deal together, even before it gets to the point where investors look at it," he says. "It's ridiculous to throw all that away simply because there's a technical glitch at the wrong moment."

Watch The Time

The risk in letting a presentation run too long is not just that investors start to nod off, says Klass. "Far more damaging is the fact that information which might otherwise cause an investor to bite gets lost in the endless drone."

Conversely, he says, a presentation that's too short causes problems, too. "If you don't cover all the bases, investors will have more questions at the end of the presentation than answers."

"To be successful," he continues, "would-be issuers need to focus on the specific agenda the investors might have and zero in on the points which are important to them." To some, the underlying technology is important. For others, building confidence in management is key.

Still other investors are preoccupied with the so-called exit strategy, which is the plan for them to capitalize on their investment.

Keeping these preferences in mind, anyone who makes a presentation to investors should cover five basic areas: the company's background and product; an analysis of the market and its opportunities; present and future marketing operations; key per-

sonnel; and the financial analysis.

The financial analysis, says Klass, should review historical financial performance, projected performance, the use of capital on hand, and a comparison of the market value of comparable companies.

"Many investment forums where companies can meet investors are highly

technology. "These can be the toughest and most dangerous questions because many times they're not logical," he says. "You can't sound insulting or condescending, and you've got to address their issue in a way that speaks to them. Guessing at these beforehand was a huge help for Microleague."

Another tactic, says Swartz, is to repeat the question after it's asked. "By repeating it, we get everyone in the room on the same page," he says. "More importantly, though, it gives the investors the opportunity to adjust the question so they get the information they are looking for."

Perhaps the most important opportunity presenters can seize with the question-and-answer session, says Swartz, is to build comfort among potential investors. "Equity investors," he says, "whether they are active or passive, tend to look at the investment as a partnership. If you appear to

know it all, or take criticism poorly, or come off as arrogant, you'll quickly find that nobody wants to do business with you."

It would almost appear that style is more important than substance in investor presentations. But Klass says that among equity investors, substance *does* ultimately prevail. "The distinction," he says "is that in the extremely competitive markets for equity capital, a winning style is required to get and keep investors' attention."

No matter how smooth the style of delivery, of course, there are certain problems that make a deal unfundable. Among them are poorly prepared financial projections, severe blemishes on the backgrounds of principals, and the appearance that investment capital would be used solely to solve past problems. "If you're trying to raise capital and you are carrying this kind of baggage," says Klass, "your task is much more difficult."

On the other hand, he says, you may have a good story but lack the kind of presentation that makes it believable. "If this is the case, your road will be just as difficult to travel."



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structured and give companies just 30 minutes to make their pitch," he notes. With a 20-minute presentation, there's time left for questions and answers, which can often be the most important part of the presentation.

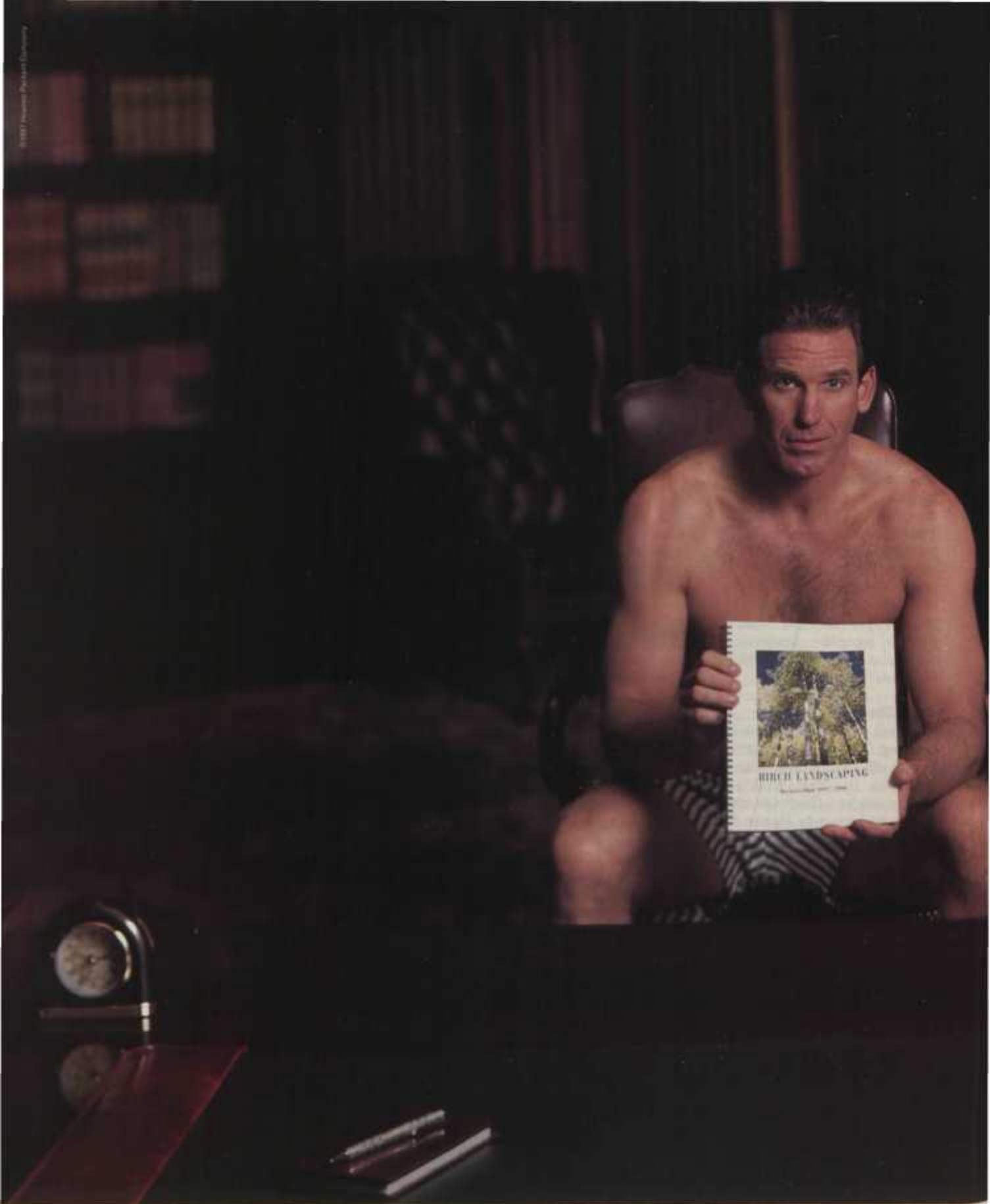
Prepare For Questions

The question-and-answer part of the presentation can make or break the deal. Moreover, the Q&A can be a useful tool, as demonstrated by entrepreneur Swartz, who used a videotape of his company's new sports game in his presentation to investors. Enjoying the roles of salesman and cheerleader, Swartz found the format of formal presentations rigid and confining. "I didn't like sticking to an outline because I wanted to respond to how the audience was reacting to certain parts of the story."

Capitalizing on his strengths, Swartz kept his presentation to the bare minimum, leaving plenty of time for questions and answers.

Uncomfortable at best with a canned script, Swartz often held the room in rapt attention as he fielded difficult as well as routine questions from potential investors.

Swartz said a secret to his success is anticipating questions from investors unfamiliar with the business or the



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Putting Together A Digital Office

By Tim McCollum and Albert G. Holzinger

Over the past two decades,

personal computers have become firmly established as the primary office tool of small-business owners. Now, the digital technology that is standard in PCs is beginning to appear in other office equipment, including copiers, fax machines, phones, and cameras.

This development has generally increased the precision of these devices and, therefore, improved their performance. Also, it has made these products easier to use in concert with PCs.



It is now possible for business people to assemble a closely knit collection of office equipment whose pieces work more efficiently and productively together than they ever could individually.

This report describes some of the star performers in the functional categories of computing, imaging, and communicating. It details one or more of the distinguishing characteristics of each.

Phone numbers for the companies whose products are described in this report can be found in the accompanying boxes.

Computing

Today's PCs can take on office tasks traditionally done by employees—managing documents, for example.

Small-business owners expect their desktop computers to function as more than inanimate word processors and numbers crunchers. They require computers to perform as communications managers, document librarians, duplicating-center coordinators, and sometimes more.

Many computers now provide these diverse capabilities via Intel Corp.'s MMX (multimedia extension) technology. MMX works with Intel's Pentium processor to turbocharge operations that involve multimedia-laden files such as desktop-publishing documents and World Wide Web pages. Even software programs that produce primarily text—word processors and spreadsheets, for example—perform somewhat



better on MMX-enhanced systems.

Consequently, most of the PCs described here feature MMX technology. All are available with processors that work at the lightning-fast speed of 200 megahertz (MHz). They also come with 16 or 32 megabytes (MB) of memory to allow simultaneous operation of several programs, and they have a hard disk of 2 gigabytes (GB) or larger for abundant file storage.

Also commonly available are eight-speed or faster CD-ROM drives capable of accessing data at speeds of at least 1.2 MB per second; modems of at least 28.8 kilobits per second (Kbps) for efficient communications; and Universal Serial Bus (USB) ports for easy attachment of devices such as printers and scanners. Most of these

computers run under Microsoft Corp.'s Windows 95 operating system.

Also described are selected peripherals that can make computing more convenient and, in some instances, more comfortable.

Computers

AST Bravo MS-T Pro 6200

Entrepreneurs who wish to run Microsoft's Windows NT operating system, a more crash-resistant alternative to Windows 95, should consider the Bravo MS-T Pro. The 6200's Pentium Pro processor is fine-tuned for high performance under NT. The system's multimedia features, including a professional-quality graphics accelerator (which radically speeds up Windows and other graphical programs), make the most of its 200MHz of processing power. Retail price without a monitor: \$2,654.

Compaq Deskpro 4000 Series

Deskpro 4000 systems are solid non-MMX performers available with either a 200MHz Pentium or a 200MHz Pentium Pro processor. They feature Compaq's in-

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novative LS-120 floppy-disk drive, which reads both high-capacity 120MB and standard 1.44MB diskettes.

The 4000 series systems also have upgradeable network cards and software that facilitates system updates from Compaq over the Internet. Retail prices without monitors start at \$2,300.

Dell Dimension XPS M Series

These 166MHz and 200MHz Pentium MMX systems are multimedia workhorses featuring 12-speed CD-ROMs, 32MB of memory, built-in audio and video capabilities, USB ports, and 33.6-Kbps data/voice modems. Prices, including a 15-inch monitor, start at \$2,199 direct from Dell.



Dell Dimension XPS M Series

Digital Celebris FX 5200M

This 200MHz Pentium MMX machine's distinguishing feature is its built-in network adapter and system-management software, which ease setup and maintenance for companies whose computers are linked by a network. Retail price without a monitor: \$2,589.

Gateway 2000 P5-200 Professional

This 200MHz Pentium MMX computer is loaded with features, including 32MB of memory, a 2.5GB hard disk, a 12-speed CD-ROM, and a 17-inch color monitor. Price: \$2,299 direct from Gateway 2000.

IBM PC 350

IBM has beefed up its PC 350 system with a 200MHz Pentium MMX processor and a hefty 2GB hard disk. And the PC 350 comes ready to plug in to a computer



Gateway 2000 P5-200 Professional

network. Users can choose among operating systems: Windows 95, Windows NT, or IBM's OS/2. Retail price without a monitor: \$2,571.

Micron Millennia Mxe 200

If you need a no-holds-barred multimedia performer, check out Micron's 200MHz Pentium MMX system with 32MB of memory, a 3.1GB hard disk, a 12-speed CD-ROM, top-notch three-dimensional-effect video, and sound that plays on high-quality speakers provided by Micron.

To boot, Micron throws in a 33.6-Kbps fax modem and an Iomega Zip drive, which serves as a 100MB floppy-disk drive. Price, including a 17-inch monitor: \$3,017 direct from Micron.



Micron Millennia Mxe 200

Monitors

Hitachi/NSA SuperScan Elite 611

This 17-inch monitor displays text, graphics, and video at resolutions of up to 1,600 by 1,280 dots per inch (dpi). Moreover, it features a 0.22 mm dot pitch and a high maximum refresh rate

for sharp, flicker-free images. Retail price: \$799.

NEC MultiSync XV17+

The 17-inch XV17+ monitor uses proprietary technology to improve the clarity of text, graphics, and video images at a resolution of up to 1,280 by 1,024 dpi. Retail price: \$749.

Princeton AR3.1AV

This versatile 31-inch monitor is designed for group viewing of everything from computer-generated sales presentations to Web sites to videotapes or television programs. Its 800 by 600 dpi is high for a monitor this large. Retail price: \$1,399.

Accessories

Cirque Glidepoint Touchpad 2

Do your wrists ache from dragging and clicking a standard computer mouse? Try this touchpad alternative. Moving a finger across the pad's surface moves the cursor across the screen correspondingly; tapping its surface or pressing one of several buttons replaces mouse clicking. Retail price: \$79.

Kensington Contour Wrist Pads

Keyboard- and mouse-weary wrists also will appreciate these soft, good-looking, skid-resistant rests. Retail prices start at \$18.95.

SyQuest SyJet Drive

This drive was designed for those who maintain large amounts of data and need to access it fast. It accommodates a removable 1.5GB cartridge—big enough to hold about two hours of CD-quality audio, for example. Moreover, it's as fast as the hard disks inside many PCs. Retail prices for the drive and one cartridge start at \$399.



SyQuest SyJet Drive

For More Information

Details about the computers and related products described in this report can be obtained by calling the phone numbers below.

AST Research Inc., 1-800-876-4278

Cirque Corp., 1-800-454-3375

Compaq Computer Corp.,

1-800-345-1518

Dell Computer Corp., 1-800-388-8542

Digital Equipment Corp.,

1-800-344-4825

Gateway 2000 Inc., 1-800-846-2000

Hitachi/NSA, 1-800-672-4685

IBM Corp., 1-800-426-2968

Kensington Technology Group,

1-800-535-4242

Micron Electronics Inc.,

1-800-707-2329

NEC Technologies Inc., 1-800-632-4636

Princeton Graphics Systems,

1-800-747-6249

SyQuest Technology, 1-800-245-2278

Imaging

Digital technology is increasing the versatility of cameras, copiers, and other document-related devices.



Computers aside, nowhere in the office is the emergence of digital technology more pervasive—or more useful—than in devices associated with the input and output of documents.

For example, new copier-printers can print a digital file, hold the image in memory, and then make multiple copies of it as quickly and easily as they can make multiple copies of a paper document. (Printers generally can't make multiple copies as quickly as a copier can, but these "mopiers," as they're called in the industry, are showing it can be done.) And digital cameras and scanners now make it easy to import images and paper documents alike into PCs. Following are some noteworthy imaging products under the headings of cameras, copiers, multipurpose devices, printers, and scanners:

Cameras

Canon PowerShot 600

The PowerShot 600 produces computer-ready images that are affordable and look great. The digital camera looks and operates like a conventional autofocus flash camera with a 50 mm lens, but it captures images (up to 18 at high resolution) in its 1MB of memory instead of on film. A cradle that connects to a PC holds the camera to ease the transfer of images and captions alike to the computer for archiving, incorporation into documents, or printing. Retail price: \$799.

Kodak DC25

Kodak's newest digital camera combines the best of digital and traditional photo features. An optical viewfinder and automatic flash make it easy to take quality pictures. A color liquid-crystal display permits viewing of just-taken pictures. The DC25 can store up to 29 color pictures in its built-in memory. Retail price: \$499.

Copiers

Kodak ColorEdge 1560

This high-end digital copier's reproduction speeds of seven pages per minute for full color and 28 pages per minute for black and white, along with its wealth of features such as the ability to do two-sided copying (duplexing), make it ideal

for producing large volumes of sales brochures and inserts. When the Fiery Color Server from Electronics for Imaging is added, the 1560 doubles as a work-group color printer in offices with computer networks. Retail price: \$35,500 for the copier. Prices start at \$18,500 for the Fiery Color Server. Both are available from Danka Office Imaging.

Minolta EP1083

This black-and-white copier is notable for its sophisticated features and affordable price. For example, it can do duplexing, produce enlarged or reduced copies, and turn out 18 pages per minute. Retail price: \$3,450.

Mita DC-3060

This black-and-white copier can tackle almost any duplicating task. For example, it can collate, duplex, staple in multiple locations, punch two or three holes in copies, enlarge or reduce documents, and track usage by individual or department. It operates at the sizzling rate of 30 copies per minute. Retail price: \$5,795.



Mita DC-3060

Savin SDC103E

This digital color copier/work-group printer is an all-around performer with a budget price. The feature-rich machine copies or prints over a computer network at three pages per minute in color or 21 pages per minute in black and white. Retail price, including a network connector: \$19,995.

Sharp SF-2120

This versatile black-and-white copier, able to turn out 20 pages a minute, can accommodate most small-business needs. Its by-

pass feature allows a user to divide a copying job of up to 50 pages of originals among plain paper, letterhead, and even transparencies. Retail price: \$4,595.

Xerox 5626

The speedy 5626 can churn out up to 250 black-and-white copies at a time at a rate of 24 copies per minute. There are separate automatic document feeders for mixed copying of one- and two-sided originals. The digital control panel provides easy setting of its myriad features, such as enlargement or reduction and image-control functions for copying photos, proofs, and other documents. Retail price: \$9,695.

Multipurpose Devices

Brother MFC-4550

This device can, among other things, answer telephones, scan documents, do laser printing, copy documents, and send and receive faxes. The MFC-4550 can churn out up to six pages per minute at 600 by 600 dpi, and its 14.4-Kbps fax modem/answering machine can tell whether an incoming message is a fax or a voice call and handle it accordingly. The device scans documents at 400 dpi, and the included software eases management of scans and incoming faxes. Retail price: \$799.

Hewlett-Packard OfficeJet 500

This device brings inkjet color to the multifunction picture. Scan in a document and manipulate it on the PC with the included software. Then print out up to 99 color copies at 600 by 300 dpi. Or fax the copy or PC file using the OfficeJet 500's internal 14.4-Kbps modem. Retail price: \$499.

Xerox WorkCenter Pro 535

This WorkCenter meets basic business needs well, combining laser printing and copying with 9.6-Kbps faxing. The system can print four pages per minute at 300 by 300 dpi. Its automatic document feeder permits copying of up to 20 originals at a time. And the fax can simultaneously send and receive documents. Retail price: \$1,495.

Printers

Hewlett-Packard LaserJet 6P

This small LaserJet packs a big punch. It prints eight black-and-white pages per minute, and proprietary technology results in sharp text



Xerox WorkCenter Pro 535

SPECIAL REPORT ON TECHNOLOGY

and photorealistic images. An infrared port allows users to print out pages from many PC models without a physical connection to the printer. Yet the LaserJet 6P can connect to computer networks for small-work-group printing. Retail price: \$799.

Lexmark 2055

The 2055 is a good fit for small companies that use photographs in their inkjet-printed sales materials. It uses a special ink cartridge to produce six-color images at 600-by-600-dpi resolution. The print speed is four pages per minute in black and white and one page per minute in full color. Retail price: \$299.

Okidata OkiPage 4w

This OkiPage has gained a following among those who want a laserlike printer at a budget price. It isn't a true laser, but its LED (light-emitting diode) print head creates black-and-white images of nearly laser quality at four pages per minute. Retail price: \$299.

Tektronix Phaser 350

The Phaser 350 isn't a laser printer either, but its solid-ink technology produces documents that are comparable in quality with those printed on color lasers, at about half the purchase price. And Tektronix currently provides free black ink, which reduces overall usage costs. Retail price: \$3,495.

For More Information

Details about the imaging products described in this report can be obtained by calling the phone numbers below.

Brother International Corp.,

1-800-521-2846

Canon Computer Systems Inc.,

1-800-848-4123

Danka Office Imaging, 1-800-255-3434

(Kodak copier)

Eastman Kodak Co., 1-800-235-6325

(camera)

Hewlett-Packard Co., 1-800-752-0900**Lexmark International Inc.,**

1-800-LEXMARK (1-800-539-6275)

Minolta Corp., 1-800-9-MINOLTA

(1-800-964-6658)

Mita Copystar America Inc.,

1-800-ABC-MITA (1-800-222-6482)

Okidata, 1-800-654-8326**Panasonic Computer Peripheral Co.,**

1-800-742-8086

Plustek USA, 1-800-685-8088**Savin Corp., (203) 967-5000****Sharp Electronics Corp.,**

1-800-237-4277

Tektronix Inc., 1-800-835-6100**Xerox Corp., 1-800-275-9376**

Lexmark 2055

Scanners

Panasonic KV-SS25

This machine's maximum scanning rate of 20 pages per minute makes it a good choice for high-volume work.

And unlike conventional flatbed scanners, which take up a lot of desktop space, this scanner features a compact tower design. Retail price: \$4,599.

Plustek OpticPro 4830P

The OpticPro has quite an eye for color. It can recognize more than 1 billion hues for accurate reproduction of graphics and photos.

It can double as a fax-transmission device in concert with a PC modem and the appropriate software. Retail price: \$299.

Communicating

New answering machines, faxes, and phones can help you become a better communicator.

Office communications devices also are beginning to acquire new capabilities. For example, some phones now can work in concert with computerized contact-management programs to automate dialing. And the latest modems are showing that data can be sent and received at higher speeds than were thought possible over conventional phone lines. Here are some great communicators:

Answering Machines

Casio PhoneMate TP-340

This device is a big step up from most answering machines. Its Pager Link function can signal users' pagers when calls come

in. Moreover, it's easy to program the TP-340, which includes a built-in speakerphone. Retail price: \$149.

Panasonic KX-TM90B

This stand-alone digital answering machine can record a hefty 25 minutes of incoming messages on a microchip rather than on tape. A display tells users how many messages have been received. Retail price: \$79.95.

Faxes

Canon Faxphone B540

This plain-paper fax machine is a solid communications tool for small businesses. Its 9.6-Kbps modem transmits a page in



nine seconds, and its inkjet print engine produces incoming faxes at 360 by 360 dpi. Retail price: \$399.

Muratec F-120

The F-120 is suitable for businesses that live and die by the fax. For example, the machine can speed the fax process by scanning pages for transmission while simultaneously receiving and laser-printing incoming documents at 600-by-600-dpi resolution. Moreover, the F-120 can be connected to a computer, which allows it to double as a printer. Retail price: \$3,495.

Ricoh FAX1700L

This is an excellent performer at an affordable price. For example, it can scan pages for transmission at 2.8 seconds per page, and

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Faxphone B540



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it can laser-print incoming documents at six seconds per page. Retail price: \$1,795.

Modems

3ComImpact IQ

Obtaining an ISDN (integrated services digital network) line remains the best option for many small companies that need faster access to the Internet than ordinary phone lines can provide. The 3ComImpact IQ adapter utilizes compression to wring out all of the 230.4 Kbps of speed that ISDN technology offers.

It includes two ports for connecting analog devices such as answering machines and faxes, which can operate even while you're attached to the Internet. And if you let 3Com arrange for the ISDN-line installation, the company offers a money-back guarantee that you can set up the Impact IQ in 15 minutes. Retail price: \$499.



Sony SPP-ID910

Global Village TelePort 33.6 Speakerphone Modem

The TelePort is an extremely practical addition to any office or conference room. This 33.6-Kbps external modem capably handles incoming data and fax calls. The bonus is in the modem's strength as a full-featured speakerphone. Moreover, the device even works when the attached computer is shut off. Retail price: \$239.

U.S. Robotics Sportster 56K Modem

U.S. Robotics invented the so-called x2 technology, one of two competing compression schemes that allow users to send and receive data at the previously unthinkable speed of 56 Kbps. (The top speed used to be 33.6 Kbps.)

And if the organization that sets international telecommunications standards modifies U.S. Robotics' pending 56-Kbps transmission standard, the modem can be upgraded. Retail price: \$199 for the internal version, \$219 for the external model.

Whistle InterJet100

Need to connect all the users of your company network to the Internet? It's easy if

you use the InterJet, a device in the product category known as routers.

The InterJet allows a company to connect its network to the Internet at speeds up to 1.544 megabits per second, known as T-1.

Yet, unlike conventional routers, the InterJet can be set up automatically and configured remotely by a company's Internet service provider during the initial connection.

Retail price: \$1,995.



3Com Impact IQ

Phones

Lucent/AT&T Personal Information Center 882

Designed by Lucent Technologies and marketed by AT&T, the 882 is a two-line speakerphone and much more. This device is an information organizer, complete with

a keyboard, for storing a great deal of information on as many as 200 people or businesses. Users can program up to 50 one-time or recurring events; when the event is imminent, an audio and visual reminder is triggered. Retail price: \$199.



Lucent/AT&T Personal Information Center 882

Sony SPP-ID910

This cordless phone provides remarkable voice clarity through its use of digital technology, the 900MHz frequency range (ordinary analog cordless phones use the more static-prone range of 43 to 49MHz), and the ability to switch during calls to the clearest of the 10 channels available to it.

And unlike calls made on analog cordless phones, digital calls are encoded to deter eavesdropping. Retail price: \$229.95.

Postage Meters

Ascom Hasler System 220i Plus Base and 1441 Detachable Meter

This base/meter combination is suitable for firms with a substantial volume of outgoing mail. The base can process standard- and large-size envelopes up to 7/8 of an inch thick and 7 1/2 inches wide at a rate of up to 170 pieces an hour.

The electronic meter has a host of features. For example, it can track postage expended for up to 100 customers. Ascom Hasler sells the base for \$1,925 and rents the meter for \$30 a month.

Pitney Bowes Personal Post Office

The Personal Post Office consists of a compact meter that applies postage via inkjet printing to as many as 10 envelopes a minute.

It sports a number of features usually found only on larger systems, such as the ability to print any one of up to eight advertising slogans next to the postage amount.

Perhaps most important is the feature that enables postage to be added to the system in less than a minute via a toll-free telephone call (no more waiting in line at the post office).

Pitney Bowes rents the Personal Post Office meter for \$19.75 a month. A companion electronic scale rents for \$5 a month.

For More Information

Details about the communications products described in this report can be obtained by calling the phone numbers below.

3Com Corp., 1-800-NET-3COM

(1-800-638-3266)

Ascom Hasler Mailing Systems, Inc.,

1-800-243-6275

Canon Computer Systems Inc.,

1-800-848-4123

Casio PhoneMate Inc., (310) 618-9910

Global Village Communication Inc.,

1-800-329-9675

Lucent Technologies, 1-800-222-3111

Muratec Business Systems Inc.,

(972) 403-3314

Panasonic Consumer Electronics Co.,

1-800-782-8086

Pitney Bowes Inc., 1-800-5-PITNEY

(1-800-574-8639)

Ricoh Corp., 1-800-63-RICOH

(1-800-637-4264)

Sony Electronics Inc., 1-800-222-SONY

(1-800-222-7669)

U.S. Robotics Corp., 1-800-877-2677

Whistle Communications Corp.,

1-800-989-4538

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BENEFITS

An Update On Health-Care Pools

By Stephen Blakely

Three years ago, small-business owner Jan Eddy was struggling to find affordable, high-quality health insurance for the 30 employees in her Madison, Wis., software-development firm. Like many entrepreneurs, she felt resentful that small firms seemed to get overcharged and underserved by a health-care system that considers bigger to be better.

"The large employers were getting great deals, but the insurance companies were shifting their costs to small businesses," says Eddy, owner and CEO of Wynga Technologies. Small firms that couldn't reap the cost-spreading advantages of large-group policies and had signed up for individual policies "had been getting hit with 20- to 30-percent premium increases," she says. "That wasn't fair."

In 1994, Eddy became chairwoman of a committee formed by the Greater Madison Chamber of Commerce to try to do something about small employers' health-insurance problems. The committee's proposed solution, rolled out last October, is an insurance purchasing alliance. Such alliances, also called purchasing pools, offer affordable group health policies exclusively to local businesses with fewer than 100 workers, including sole proprietors.

The purchasing pool in Madison is called the Alliance-Chamber Health Insurance Program, or A-CHIP. It's a collaboration involving 14 area chambers of commerce and The Alliance, a health-care cooperative owned by the large corporations it serves.

The A-CHIP program took off quickly. More than 160 small businesses in the Madison region enrolled in A-CHIP's first five months, providing coverage to more than 1,000 people. A dental plan was added in March, and a half-dozen more local chambers will be offering A-CHIP to their member companies in the next few months.

The Private-Sector Solution

For an ever-growing number of small businesses nationwide, private-sector health alliances such as A-CHIP have become the solution to the problem of finding affordable insurance. (See also "The Power Of Pooling," March 1995.)

Employers who sign up for A-CHIP are required to pay half of the health-insurance premium for each employee who decides to take the coverage; the employee pays the



PHOTO: CHRIS ECKHORN

Company owner Jan Eddy's panel gained access to affordable health coverage for small firms in Madison, Wis.

rest. Companies that join the A-CHIP program receive several benefits:

- They are charged a "community rate," which is lower than an individual rate.
- Premium increases are capped for the first three years.
- Billing and claims are handled by a central office, minimizing paperwork for each participating firm.
- Employees gain access to affordable, high-quality health coverage.

A-CHIP not only reduced insurance costs for many small firms that switched from other types of coverage, Eddy says, but also is enrolling "a significant number" of small companies that had not offered coverage before.

Moreover, given the "very tight" labor market in Madison—unemployment is only 1.5 percent—the ability to offer employees health coverage is helping small firms compete for talent, she adds. "This initiative was driven by the small employers, and that's the key reason for our success."

The Roots Of Health-Insurance Co-ops

In 1993, California became the first state to establish a voluntary health-insurance purchasing co-op, or HPC (pronounced "hip-

Private-sector alliances continue to emerge to obtain affordable health insurance for small firms.

pic") for small firms. Today, 120,000 people in the state have health insurance through the state-administered and privately financed HPC.

"In California, the conventional wisdom is that HPC insurance rates were 10 to 15 percent lower than the outside market," says Kevin Haugh, principal of the Institute for Health Policy Solutions, a nonprofit group in Washington, D.C. He adds that the difference has shrunk, however, because other California insurers have lowered their costs, and health-insurance rates have become more competitive as a result.

Nationwide in the past four years, HPC-style health alliances for small businesses have spread to 15 states, and coverage has grown to more than 500,000 people, Haugh says. Private HPCs are being developed in at least eight more states, he says, with one likely to be launched in Oregon this spring.

The biggest and one of the most successful health alliances in the nation is in Cleveland. There, the Council of Smaller Enterprises (COSE) provides coverage for about 200,000 people through its alliance with the region's biggest health insurer, Blue Cross and Blue Shield of Ohio.

Two of the fastest-growing statewide HPCs are in Colorado and Connecticut. In just six months, Colorado's Cooperative for Health Insurance Purchasing (CHIP) exceeded projections of having 10,000 people covered the first year. The Connecticut Business and Industry Association (CIBA), formed just over two years ago, has 3,500 small businesses enrolled and 55,000 people covered.

"We give small businesses an avenue to get into managed care, which offers savings of between 15 to 50 percent from the traditional forms of indemnity insurance," says Philip Vogel, CIBA's senior

BENEFITS

vice president. "The program has been received very, very well."

Creating Leverage

The underlying purpose of a purchasing pool is to form a group large enough to give its members leverage in negotiating lower prices in the marketplace.

Big companies, by virtue of their size, have the purchasing power and employee base to obtain discounts from vendors and insurers—financial clout that small businesses typically lack. For years, many small employers have relied on the pooling arrangements of affiliated business groups, trade associations, or other organizations to obtain affordable health insurance.

HPCs as well use the power of pooling to reduce insurance premiums, but they can differ from other purchasing alliances—such as A-CHIP—in that they typically seek to improve the insurance and health-care options available to small businesses. For example:

- HPCs accept small companies based on the number of employees (typically two to 50) rather than by industry sector or affiliation.

- HPCs require health insurers to offer coverage to the entire group at a standard rate rather than at rates varying by company size or by an employee's sex, age, or claims history.

- HPCs require health providers to offer standardized benefits that permit easy price comparisons.

- HPCs attempt to promote competition among health providers by offering a vari-

ety of health plans from which customers can make a choice.

Because they are usually locally based and privately operated, health co-ops or alliances have evolved quite differently in the 15 states where they are functioning. For instance, California's co-op plan is run by an independent state agency that defines the benefits and negotiates with insurers. Florida and Texas have less state control and permit more autonomy among alliances. In New York and some other states, local business-sponsored health alliances operate on their own.

Setbacks And Prospects

For all the success that various small-business health alliances have had in recent years, there have been some failures, too. In Iowa, a fledgling HPC was recently terminated for lack of enrollment. In South Carolina, even though the state legislature passed a law to encourage HPCs, no health co-ops have been formed. In North Carolina, where several have been formed, participation has been lackluster.

Two impediments to the creation of HPCs are the existence of state laws against them and the absence of state laws encouraging them.

Some states have long-standing laws expressly prohibiting businesses from coming together to obtain insurance. Other states have not enacted laws that would enable small firms to buy health insurance

regardless of their workers' health status, that would limit insurance-rate variability between companies of similar size and labor characteristics, and that would prohibit insurers from canceling small groups' coverage without cause.

Without such changes, HPC advocates say, big health insurers will be reluctant to participate or will refuse a co-op's terms of coverage.

Says health-policy expert Haugh: "Perhaps the growth has been a little slower than we had expected. But those that got off to a good start have been very successful. We think there's real promise with these things."

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The Widening Access To Small-Business Health Alliances

| Alliances In Operation | | Alliances Under Consideration |
|------------------------|----------------|-------------------------------|
| California | New York | Indiana |
| Colorado | North Carolina | Maine |
| Connecticut | Ohio | Massachusetts |
| Florida | Texas | Michigan |
| Iowa | Utah | Montana |
| Kentucky | Washington | Oregon |
| Minnesota | Wisconsin | |
| New Mexico | | |



CHART: GEORGINA LEIGH MCCORMACK

Health Costs: Rising Again?

The relative stability in health-care costs that employers have enjoyed for the past three years may be coming to an end. A new study suggests that moderate price increases are likely.

Warnings of "storm clouds on the horizon" are contained in the most recent annual survey of employers' health-insurance expenses by A. Foster Higgins & Co., a benefits consulting firm based in New York City.

"Most employers have already enjoyed the one-time cost savings of moving employees out of expensive indemnity [fee-for-service] plans," says John Erb, principal author of the Foster Higgins report.

He notes that among active employees (retirees not included) whose companies offer health insurance, more than 75 percent are enrolled in managed-care plans. "HMO [health-maintenance organi-

zation] rates are rising for 1997, following two years of premium rollbacks and sagging [insurance-company] profits in 1996," says Erb.

The Foster Higgins survey found that most employers expect their health-plan costs to rise by about 4 percent this year, which would break the \$4,000 level in the average annual cost per worker. Health benefits averaged \$3,821 per employee in 1995 and \$3,915 in 1996.

Nationwide last year, total health-plan costs went up 2.5 percent for active and retired workers of private- and public-sector employers with 10 or more workers. Foster Higgins found that small businesses—those with 10 to 500 workers—enjoyed an average 2 percent drop in their health costs in 1996, while companies with more than 500 employees saw their health costs increase nearly 4 percent.

According to Erb, who surveyed more than 3,200 employers nationwide, there are several reasons why health costs are likely to rise. Among them:

- Managed-care providers have seen their profits squeezed for the past few years and are now expected to begin raising prices.

- Massive consolidation in the medical industry, especially among hospitals, has weakened the bargaining power of managed-care plans.

- The federal government and some states are imposing costly health-coverage requirements because of public backlash against some practices under managed-care arrangements.



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Leasing Passes The Road Test

By Julie Candler

A new fleet of heavy-duty trucks arrived at PWS Foods, Inc., in Grand Prairie, Texas, in 1993. Since then, the refrigerated trucks have made daily deliveries to supermarkets, convenience stores, restaurants, and food services, supplying customers in the warm climes of northern Texas with cold treats such as national brands of ice cream and other frozen desserts.

PWS had been leasing trucks from three companies but decided in 1993 to simplify logistics by using just one. After the dessert distributor switched to PACCAR Leasing (known as PacLease) of Bellevue, Wash., it discovered another advantage to its new arrangement.

"We liked the fact that we were able to get a whole new fleet," says Arnold O. Felner, executive vice president for administration at PWS, which generally has about 75 employees. "There's no way that a company our size could invest in vehicles and have enough capital to run a business."

Another benefit of leasing cars and light- and heavy-duty trucks is relief from the responsibility of servicing the vehicles.

PWS, like many other companies with fleets of heavy-duty trucks, contracts for full-service leasing. "We like the convenience of having repair and maintenance service available 24 hours a day, seven days a week" for the company's 30 Mack, UD, and Peterbilt trucks, says Felner. PacLease mechanics visit the firm nightly to do routine maintenance, wash the vehicles, and check the refrigeration units. "It's important because ice cream can go bad in 20 minutes," Felner says.

Full service frees the lessee from environmental and regulatory concerns as well. When a firm such as PWS operates its own

shop for fueling and servicing vehicles, it takes on the burden of conforming with regulations such as those on disposal of toxins. With full-service leasing, PacLease assumes the risk for any liability or violation connected with these regulations.

Felner also likes the flexibility that

Offering advantages in costs, services, and efficiency, leasing is gaining in popularity among small businesses with fleets of cars or trucks.

Services, Inc., in Holtsville, N.Y. DiCarlo dropped vehicle ownership and in-house maintenance last July and contracted with Miami-based Ryder System, Inc., for full-service leasing. DiCarlo's 33 trailer-hauling tractors and five medium-duty trucks distribute meat, produce, and frozen foods to



PHOTO: SHAWN PERLSTEIN

Dessert distributor PWS Foods of Grand Prairie, Texas, depends on its lessor to make sure trucks are serviced to prevent spoilage of perishables such as ice cream—being unloaded by employee Ron Flackman.

leasing offers in scheduling routes and loads. "When we have an occasional need for a tractor-trailer combination for a special job," he says, "PacLease provides it."

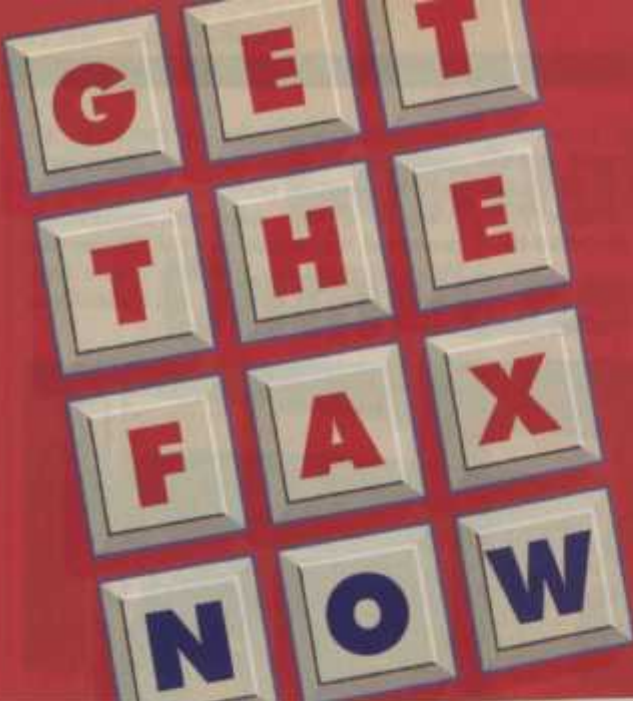
PacLease helped determine the specifications of components such as transmissions for PWS's new trucks, says Felner. "We told them our needs—like trucks with a short turning radius to pull up to the backs of stores—and they came up with the right vehicles."

Another company that has benefited from full-service leasing is DiCarlo Food

restaurants and food services in the New York City area.

Ryder routes two maintenance people each day to DiCarlo. "One mechanic arrives at 4 p.m. to work on vehicles returning from their daily rounds," says Anthony Yodice, DiCarlo's vice president of operations. "Another shows up at 4 a.m. to be certain each loaded truck starts and is ready to make early-morning deliveries as scheduled."

Scott Saperstein, marketing coordinator at DiCarlo, says that "initial figures show leasing is far superior to what we had



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before. It's more cost-effective, and we get greater productivity from the drivers."

Increased Efficiency

As president and CEO of the Truck Renting and Leasing Association in Alexandria, Va., J. Michael Payne can cite other advantages for businesses that lease their trucks. Truck-leasing companies, he says, are putting the most fuel-efficient, safest, lowest-maintenance, and most environmentally friendly trucks available onto the nation's highways.

"Their customers are operating fleets that aren't any more than four to five years old," Payne says. "Some fleets are getting smaller because they get more efficient information and management systems through lease companies. That enables them to get more work done with fewer vehicles."

"In addition, lease-company experts provide technology and other expertise so their customers' personnel can devote resources to being in retailing or whatever their business is," says Payne. "Leasing companies today offer servicing, registration, handling of taxes, and fuel-system management."

Even though the leased vehicles are not on the lessee company's books, the monthly leasing fees can be debited as a business expense. Explains Rodney J. Coutts, executive director of the independent lessors who make up the National Vehicle Leasing Association (NVLA) in Burlingame, Calif.: "For most businesses, leasing equates to a higher tax write-off. They can write off the cost of payments, which usually exceeds what the cost of depreciation would be for vehicles if a company owned them."

Raymond L. Smith, president of U.S. Fleet Leasing in San Mateo, Calif., says leasing is "a better use of cash flow versus putting out the full purchase price. Lessees can use that money to invest in their business without investing valuable capital in an asset that's depreciating and is not going to make any money for them."

PWS and DiCarlo Food reflect a national trend toward increased leasing of commercial cars and trucks. "The largest increase is in the fleets of less than 100 units," says Smith. "Small-business fleets are growing faster." U.S. Fleet Leasing specializes in serving small and midsize companies with fleets of 10 to 200 cars or trucks.

One of the biggest changes in leasing, says David P. LaFever, executive director of the National Automotive Fleet Association (NAFA) in Iselin, N.J., is an increased interest among large leasing companies in supplying fleets of 25 to 50 vehicles. "Some

may even go a little bit smaller," he adds.

The growth in leasing is largely attributable to affordability, says the NVLA's Coutts. "As prices get higher and higher [for new cars and trucks], leasing can offset the increases."

Leasing as a share of production was 24 percent in 1993, and the percentage has

administrative coordinator for sales. He emphasizes vehicle care for obtaining a good end-of-lease price.

Knap & Vogt sales and management personnel nationwide use the 28 cars and three minivans the company leases from Emkay, Inc., of Itasca, Ill., and Nationsbank Leasing Corp. of Tucker, Ga.



PHOTO: GIBBY WILKINSON

Furniture-hardware maker Knap & Vogt of Grand Rapids, Mich., leases vehicles for sales personnel such as Duwayne Stanford, left, shown with Eric Barnes, manager of A&M Supply in Orlando, Fla.

risen steadily since. A late-1996 NAFA survey of managers of commercial and publicly owned fleets found that they leased 34 percent of their vehicles.

Last year, the Truck Renting and Leasing Association's 757 member companies registered more than 44 percent of all the new heavy-duty trucks in classes 6, 7, and 8 (gross vehicle weights of more than 19,500 pounds) that were placed in commercial service in the United States, says Payne.

Two Types Of Endings

To offset the rising cost of vehicles, H. Roger Knap focuses on maintaining as high a resale price as possible on cars leased for Knap & Vogt Manufacturing Co., a furniture-hardware producer in Grand Rapids, Mich. Knap & Vogt uses open-end leasing, an arrangement in which the lessee is responsible for the market value of the vehicle when it is sold at the end of the lease. Open-end deals are the most popular among firms that lease fleets because they ultimately have the lowest cost.

"I learned through experience that the cost of fleet operation is as much a factor of resale price as it is of acquisition at the other end," says Knap, the company's

Knap and other fleet managers capitalize on fluctuations in used-car prices to maximize return on vehicles. Knap avoids trading in autos during December or the early months of a year, when resale values are traditionally low.

An alternative to open-end leasing that is more attractive to some small firms is a closed-end lease, in which the lessor is responsible for depreciation. The lessor charges the customer based on estimates for depreciation, maintenance, insurance, and registration, plus a management fee. The market value of the vehicle at the end of the lease term belongs to the lessor. The customer is liable only for lease payments.

Closed-end leases are considered the easiest for budgeting and controlling costs. However, they carry a penalty if the mileage stipulated in their 24- or 36-month terms is exceeded.

Closed-end leasing works well for G.S. Blodgett Corp. of Burlington, Vt., because the company's vehicles seldom exceed the 50,000-mile limit under the three-year leases. Blodgett leases 40 vehicles from U.S. Fleet Leasing, mostly for use by sales and executive personnel.

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among factories in Burlington, where Blodgett manufactures commercial convection, conveyor, and other ovens for customers such as Pizza Hut.

Emilie Mattesich, fleet manager and executive assistant to the president of Blodgett, says she prefers closed-end leasing because payments are easy to budget. "We typically pay \$375 monthly for the term of the lease. We possibly could get a better price for the vehicle on resale with an open-end lease, but we don't want to get into the resale business."

An Ownership Advocate

Despite the numerous testimonials to the advantages of leasing, ownership and in-house repairs of a fleet can pay off, according to the calculations of Ken Higgins of J.F. Fick, Inc., an Anheuser-Busch beer distributor in Fredericksburg, Va.

Higgins, the company's director of transportation, employs mechanics who keep the firm's 35 Navistar tractors running dependably for an average of 12 years, at about 15,000 miles per year. Some of J.F. Fick's 31 light trucks, mostly Ford Aerostar minivans and Ford Explorer sport-utility vehicles used by supervisors, have accumulated 300,000 miles. "We have few breakdowns," says Higgins.

Light Trucks On The Rise

Many fleets that had been composed mainly of cars are now leaning toward trucks as the popularity of pickups, minivans, and sport-utility vehicles increases.

Strong resale value is one reason the number of light trucks increased by 15.8 percent in 1996 among the nation's top 100 commercial fleets, according to the trade publication *Automotive Fleet*. At Follett Corp., a River Grove, Ill., company that owns college bookstores and distributes textbooks, midsize cars make up 60 percent of the company's 220-vehicle fleet; minivans account for the remainder, and their share is increasing each year. Ruth Alfson, who handles the firm's fleet, leases all the vehicles from Automotive Rentals Inc., in Mount Laurel, N.J., under a plan that includes regular and emergency maintenance and the handling of taxes. And although she pays \$200 to \$300 more initially for minivans with a third seat, "it's not a problem," she says, because the sent raises resale values by \$500 to \$800.

Heavy-Duty Packages

In the heavy-duty-truck area, the trend among leasing companies is toward tailor-

"Companies are winning by the quality of their supply chain as well as the quality of their product."

—John Haddock,
Ryder Transportation Services

ing a package for each customer. "The days when you would take a lease package off the shelf and write a program with the customer are over," says Payne of the Truck Renting and Leasing Association.

"Now it's modular capabilities," says John Haddock, vice president of marketing for Ryder Transportation Services, a division of Ryder

System. "We might finance-lease part of a fleet, then provide some full-service leasing and some dedicated-contract carriage."

Under dedicated-contract carriage, a firm contracts to supply trucks, drivers, other labor, management, and computer-

based systems for routing and tracking. The arrangements are often coupled with "logistics design" for routing and distribution. Use of dedicated-contract carriage is increasing, according to firms that provide the service, and most truck-leasing companies are offering it or are partnering with other companies that do.

"It's no longer just moving goods from point A to point B," says Haddock. "Companies are winning by the quality of their supply chain as well as the quality of their product. . . . We don't presuppose a solution. We want to figure out what a customer needs and satisfy those needs by adding [choices] among those modules. We are trying to broaden our range because we recognize that customers don't come in one standard size."

16

Where To Go For What You Need

Following are companies throughout the United States that lease cars and trucks to businesses.

Automobiles And Light Trucks

These companies have at least 15,000 vehicles apiece leased to business fleets:

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American Leasing Corp., 20 N. Park St., East Orange, N.J. 07017; (201) 674-5670.

AMI Leasing, 46 W. Boylston St., P.O. Box 986, Worcester, Mass. 01613; 1-800-468-9993. (The company also leases medium and heavy trucks.)

AT&T Automotive Services, Inc., One W. Pennsylvania Ave., Towson, Md. 21204; 1-800-338-5816.

Automotive Rentals Inc., 9000 Midlantic Drive, Mount Laurel, N.J. 08054; (809) 778-1500.

Donlen Corp., 2315 Sanders Road, Northbrook, Ill. 60012-6145; (847) 714-1400.

Emkay, Inc., 805 W. Thorndale Ave., Itasca, Ill. 60143-1355; (630) 250-7400.

Enterprise Fleet Services, 600 Corporate Park Drive, St. Louis, Mo. 63105; (314) 512-5000.

Fleetmark, Inc., 2838 Hickory Hill, No. 25, Memphis, Tenn. 38115; (901) 368-7800.

GE Capital Fleet Services, 3 Capital Drive, Eden Prairie, Minn. 55344; (612) 828-1000.

Lease Plan USA, 180 Interstate North Parkway, Suite 400, Atlanta, Ga. 30339; (770) 933-9090.

Nationsbank Leasing Corp., 2300 Northlake Centre Drive, Suite 300, Tucker, Ga. 30084-4007; (770) 270-8400. (The company also leases medium and heavy trucks.)

PHH Vehicle Management Services, 307 International Circle, Hunt Valley, Md. 21030; (410) 771-1900.

U.S. Fleet Leasing, 2988 Campus Drive, San Mateo, Calif. 94403; (415) 572-2102.

Wheels, Inc., 666 Garland Place, Des Plaines, Ill. 60016; (847) 699-7000.

Medium And Heavy Trucks

Major companies that lease or rent medium- and heavy-duty trucks to business fleets include:

Ford 1st, through local Ford heavy-truck dealers; for a dealer near you, call 1-800-FORD-1ST (1-800-367-3178).

Idealease, P.O. Box 499, Fox River Grove, Ill. 60021; (847) 304-6000.

Mack Leasing System, 2100 Mack Blvd. (Box M), Allentown, Pa. 18105-5000; (610) 709-3595.

National Lease, One South, 450 Summit Ave., No. 300, Oakbrook Terrace, Ill. 60181; 1-800-729-6857.

PACCAR Leasing, P.O. Box 1518, Bellevue, Wash. 98009; (206) 455-7877.

Penske Truck Leasing Co., LP, Route 10, Green Hills, Box 563, Reading, Pa. 19603-0563; 1-800-221-3040.

Rollins Truck Leasing, 1 Rollins Plaza, P.O. Box 1791, Wilmington, Del. 19899; 1-800-752-2677.

Ruan Transportation Management Systems, 3200 Ruan Center, 666 Grand Ave., Des Moines, Iowa 50309; 1-800-822-MEGA (1-800-822-6342).

Ryder System, Inc., P.O. Box 020816, Miami, Fla. 33102-0816; (305) 593-3726.

UPS Truck Leasing, 990 Hammond Drive, Atlanta, Ga. 30328; 1-800-54-UPSTL (1-800-548-7785).

SMALL BUSINESS TECHNOLOGY

The Internet In Print

By Tim McCollum

The high-tech, all-digital Internet has spawned a prolific industry in book and periodical publishing to meet the demand for information on how to make the most of the Internet. Most of the published material can be found in bookstores and on newsstands. Here's a look at some of the most useful titles:

On The Newsstand

A good way to learn about the Internet is to become a regular reader of at least one of the many Internet-related magazines.

Internet World, a monthly, covers news and developments concerning the Internet. Departments offer information on various topics and tell what types of new services and software are available on the Internet.

NetGuide seeks to be the Internet equivalent of *TV Guide*. Much of the monthly *NetGuide* is devoted to reviews of World Wide Web sites and Internet software and hardware products that might appeal to consumers.

Online Access, like *NetGuide*, tells users what's available on-line and recommends products that will help them get there. The monthly's specialty is its "Hot List," an extensive listing of capsule reviews of Internet sites by category.

ZD Internet, a *PC Magazine* for the Internet, specializes in reviewing the latest computers, software, and peripherals for using the Internet. Most of the reviews and features cover the business side of things such as the latest Web-server hardware and software.

Books For Getting Started

These books explain what the Internet is and how to use it.

Internet Starter Kit for Windows 95, by Adam Engst, Corwin Low, and Stanley Orchard (Hayden Books, \$35), does a good job of describing the Internet and explaining how to get started. The authors tell how to choose an Internet service provider and how to use Internet features such as electronic mail, FTP (file-transfer protocol, for copying or moving files via the

Internet), newsgroups, and the Web.

Using Email Effectively, by Linda Lamb and Jerry Peek (O'Reilly & Associates Inc., \$14.95), outlines when and why e-mail should be used in companies, discusses its capabilities, and deals with matters such as broadcasting to a mailing list and keeping records of e-mail "conversations" with clients and co-workers. The book gives readers hints for keeping up with e-mail they receive.



Doing Business

The number of books about using the Internet in business is growing. Many are focused on marketing and customer service on the Web. Others look at how the Internet can improve the business as a whole.

Corporate Politics and the Internet, by James Gaskin (Prentice Hall, \$24.95), details legal and management issues that can arise when companies use the Internet. Topics include computer security, network management, copyrights and intellectual property, and e-mail privacy.

Creating the Virtual Store, by Magdalena Yesil (Wiley Computer Publishing, \$24.95), gets into the nuts and bolts of building a sales site on the Web. The book emphasizes the importance of planning and creating an on-line storefront that will appeal to shoppers.

CyberPower for Business, by Walter Bock and Jeff Senne (Career Press, \$14.99), outlines on-line business models such as sales, subscriptions, advertising,

Not everything about the Net is on a screen. Here are some useful publications on the topic.

services, cost cutting, and enhancing operations. Then the authors walk users through basic strategies for doing business on-line and suggest tools and applications that can help companies reach their goals.

Doing More Business on the Internet, by Mary Cronin (Van Nostrand Reinhold, \$29.95), shows how firms use the Internet. The book offers a balance among marketing, customer service, and internal applications such as e-mail, information gathering, and document management.

Another book by Cronin, *Global Advantage on the Internet*, also \$29.95 from Van Nostrand Reinhold, shows companies how the Internet can help them compete globally.

Web Visions, by Eugene Marlow (Van Nostrand Reinhold, \$29.95), through interviews with corporate decision makers, shows how companies are using the Web and how they got started. The book includes sections on advertising, communications, and electronic commerce.

Finding Things

Guidebooks abound on tapping the Internet's vast network of resources.

Harley Hahn's Internet & Web Yellow Pages, by Harley Hahn (Osborne/McGraw Hill, \$29.99), gathers an eclectic mix of Web pages, newsgroups, and mailing lists. It's not a definitive guide to the Internet, but it does provide links to information on the economy, investing, law, management, and marketing.

Luckman's World Wide Web Yellow Pages, by the editors of Luckman Interactive Inc. (Barnes & Noble Books, \$24.95), provides listings and ratings of more than 10,000 Web sites in 187 categories. There is an extensive amount of business information covering advertising, banking, business resources, finance, international commerce, management, and marketing.

The Prentice Hall Directory of Online Business Information 1997, by Christopher Engholm and Scott Grimes (Prentice Hall, \$34.95), is a hefty guide containing short reviews of more than 1,000 business-information sites on the Web. The sites are grouped in categories such as general business, personal finance, career advancement, business services, and industries.

FINANCE

Check Your State For Funding

By Sharon Nelton

If you're scouting for capital to start or expand a business, don't overlook the possibility of help from state-government programs.

A case in point is Engineering Animation, Inc. (EAI), an Ames, Iowa, software-development company that specializes in three-dimensional visualization technology. In 1994, it applied for and eventually got \$600,000 from a state-government program known as CEBA—the Community Economic Betterment Account.

Started in 1988 by two professors and two graduate students from Iowa State University, EAI had outgrown the space it shared with about 30 other companies at the university's research park.

"Any nook and cranny that was available, they were in," recalls Mark Reinig, an economic-development coordinator with the city of Ames. In 1993, Reinig arranged for a loan of \$28,000 in city government and private funds so EAI could acquire furnishings for its expanding staff. But it was clear that EAI needed a building of its own.

Fortunately for EAI, its general counsel and vice president of administration, Jamie A. Wade, was familiar with state economic-development issues and knew about CEBA, a business-assistance program aimed at creating and retaining jobs and bringing businesses to the state.

Like similar programs in many states, CEBA requires local matching funds and community participation.

"It's a real partnership," says Michael Miller, chief of the business-finance bureau at the Iowa Department of Economic Development in Des Moines. The department administers CEBA. "It's the local community demonstrating that they support the project and then partnering with the state to support that business."

Typically, matching funds equal 25 to 50 percent of the state's contribution but can be as little as 10 percent in the smallest communities.

For the EAI loan request, Reinig helped line up \$350,000 in matching funds. The

funds consisted of a new \$50,000 loan from the city of Ames (which, combined with the balance of the old loan, brought the city's contribution and original private funding to \$71,000); a 10-year, \$100,000 loan from the Ames Seed Capital Fund, a venture-capital group, at half the prime rate; and a \$200,000, 10-year, no-interest loan from the Ames Economic Development Commission, an affiliate of the Ames Chamber of Commerce.

With the matching funds pledged, EAI's application was forwarded to the state

Companies needing money to expand might look for help from their state government, as one high-tech firm in Iowa did.

CEBA, created an additional 150 jobs within three years, the loan would be forgiven and become, in effect, a grant. "We were exceeding [the employment goal] within one year," says Wade.

With funds from the state, the city, and the private sector as leverage, EAI secured a mortgage loan to construct a two-story, 37,000-square-foot building in the research park. EAI occupied the building last June.

EAI now has the equivalent of 275 full-time employees. It went public last year, and this year it was approved for an additional \$1 million in CEBA funding.



PHOTO: GARY HEDGECOCK

Loans for growth at Engineering Animation, Inc., in Ames, Iowa, were secured by city development official Mark Reinig, left, and the firm's general counsel, Jamie A. Wade.

agency. The CEBA funding came through, although not without a glitch, says Wade. At first, in June 1994, CEBA approved only \$450,000 of the requested \$600,000. "That wasn't sufficient to allow us to marshal the assets for the project," says Wade.

Through further negotiations, EAI was able to demonstrate the additional growth that it expected and to clarify why it needed the full amount. The final \$150,000 was approved, in the form of a no-interest loan, in January 1995.

The initial \$450,000, however, was a forgivable loan—that is, if EAI, which had about 80 employees when it applied to

In many ways, EAI has been an ideal company for CEBA funding. One of CEBA's main thrusts is to create high-quality jobs; many of EAI's hires are college graduates in fields such as engineering and computing.

CEBA likes companies that sell outside the state, which brings money into Iowa. EAI is producing animation products for applications ranging from medicine to automobile design; the firm's diverse group of clients includes Merck & Co., the Discovery Channel, and General Motors Corp. This spring, in conjunction with IBM, EAI introduced to the retail market *The Magic*

This story is part of a continuing series on ways that small companies can locate the financing they need to run their businesses.

3D Coloring Book, a CD-ROM that enables children to color three-dimensional scenes on their computers using Crayola hues and textures.

One of the things that persuaded the city and the state to help EAI, say Reinig and Miller, is the company's strong management team. Matthew M. Rizai, who has a doctorate in mechanical engineering as well as an MBA and experience with automotive and venture-capital companies, had been brought in as CEO in 1990. "He had the business acumen that helped [EAI] get to the next level," says Reinig. Wade and other managers added to the firm's expertise, positioning it for further growth, he says.

Applying for a state program does involve paperwork. Wade says the CEBA application is about 20 pages long. EAI had to describe what it intended to do with the funds and to provide cost projections. In addition, the company had to provide a business plan and other documentation.

If you think you might want to pursue capital from a state funding program, here are some tips to help you prepare:

■ Check with the economic-development officials of your city, county, or state

government to learn if they have funding-assistance programs for qualified small firms. Officials at each level are usually knowledgeable about other programs and can refer you to the source that's right for you or can start the application process rolling.

■ Understand the program and its purposes. That will enable you to show how you can meet the program's requirements, says Wade. But keep in mind, he cautions, that a program may not always align with what you want your business to do. The program and the business just may not be a good fit.

■ Have a business plan in place. "If you have a good business plan and a good understanding of where the business will go, you're going to be well along the road to convincing the economic-development people that you're worthy of the grant," Wade says.

■ Be conservative in your projections. For example, Reinig advises, if the program will provide you with \$3,000 for each job you create, don't inflate the number of jobs you think your company can produce in hopes of getting a larger award.

■ Take advantage of "in-kind" credits toward matching funds, as an alternative to coming up with cash. According to Miller, CEBA has given credit for contributions such as the cost of a community extending a water line to a business or even the financial sacrifice a bank makes when it provides a below-market interest rate. In approving its latest award to EAI, CEBA counted a locally granted, five-year, industrial-property-tax abatement of \$208,000 as part of the matching requirement.

■ Keep in mind that policy questions may need to be considered. A city or county government, for example, may want to know how the location of your business will affect the school population or if the type of business you're in will increase pollution.

Summing up Engineering Animation's appeal to CEBA, Michael Miller says: "Good business plan; good management team; obviously the type of jobs that are good-quality, career-type jobs; and a company that is in the kind of market that really has the ability to grow and really make an impact economically."

"That's a very good example."

16

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Family Business

Achieving compensation equity; avoiding "one-pocket" practices; establishing an identity.

OBSERVATIONS

A Different Message For Daughters

By Sharon Nelson

I was shocked to read a "Fresh Voices" column by Lynn Minton in *Parade* magazine recently. She had asked four New Jersey 18-year-olds—all high-school students whose parents owned businesses—this question: "Should you get paid when you work for your parents?"

The two young men among the four said yes, but the two young women said no.

"What's going on here?" I wondered, and I put in a call to Cindy Iannarelli, a family-business adviser in Woodbridge, Pa., who is also the founder of Business Cents, a company that teaches children about business.

I was even more shocked when Iannarelli told me it's not unusual for parents not to pay their girls in a family business, even though they may pay the girls' brothers. Often, she says, parents are setting up the socialization stereotype in which women and girls in family businesses "help out." As a result, girls don't see the work as a job or an opportunity, says Iannarelli. "They perceive it as helping the family."

In fact, that's exactly what one of the

young women in the *Parade* story said: "When my father asked me last summer if I would help him in his office, I thought of it more as helping him out rather than as being hired for a job."

When parents don't pay girls, says Iannarelli, they're relegating them to a "helping out" role. "They're not letting them feel that their skills are worth anything." That attitude, she warns, can plague a woman throughout her life, even affecting her personal relationships.

And parents who pay sons but not daughters, she adds, are setting up the children for potential conflict. By the time these sisters reach their late 30s, they no longer want to support their brothers in the "helping" role, says Iannarelli, and "the feuds begin."

Iannarelli finds that parents—particularly fathers—give their sons a taste of family business from an early age, but they don't do the same for their daughters. She advises parents to involve sons and daughters equally, beginning as early as age 3, letting them spend a half-hour or so

a day or two a week doing little chores.

When they get to be teenagers, and especially when they are of legal working age, they should be paid for their work in the family business just as nonfamily employees are. This doesn't mean that parents can't make rules about where some of those earnings go—perhaps into a savings account or a college fund, she says.

I asked Iannarelli what she'd tell the young women in the *Parade* article if she had the chance. She said she'd ask them to look at the situation and determine whether the parents could afford to pay them or if they felt adequately compensated because money was being set aside for college. But if they felt they should be paid, she said, "then I would try to empower them to go back to the parents and negotiate pay that they would feel is equitable."

Central to her message: "You certainly want to give the same opportunities to the daughters as the sons." Part of opportunity is seeing work as worthy of compensation and not just "helping out."



PHOTO: T. MICHAEL KEZA

PLANNING

Pay In Family Businesses

By Craig E. Aronoff and John L. Ward

Asked how they were paid, four members of the Smith family, all managers in the family business, answered with some pride: "We all receive the market rate. We pay the job, not the person."

Upon further questioning, however, one son revealed that he made \$80,000, compared with \$40,000 earned by nonfamily employees doing the same job. His father rushed to explain: "He does a good job. And he's an owner of the business."

The second son had just received a midyear raise. On what basis? His wife had given birth and decided to quit her job for full-time motherhood. "We wanted to make up for the lost income," the father said.

A daughter had received an equal raise at the same time. The reason? She and the second son were close in age and had always been competitive with each other, so their father felt they should be paid equally. That meant that when the son got a raise, the daughter did, too.

Compensation is at the heart of more family-business questions than any other topic except succession. Among the common queries: "What's fair pay among family members?" "How should shareholders be paid?" "How can I resolve family disputes over pay?"

Pay is an immediate and tangible symbol of the family business's complex rela-



PHOTO: T. MICHAEL KEZA

John L. Ward, left, is the Ralph Marotta Professor of Private Enterprise at Loyola University Chicago. Craig E. Aronoff holds the Dinos Chair of Private Enterprise at Kennesaw State University in Kennesaw, Ga. They are principals in the Family Business Consulting Group, Inc.



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FAMILY BUSINESS

relationship with the family members and others it employs. Unfortunately, it is extremely easy to confuse a paycheck in the family business with return on ownership, parental concern, or methods of achieving emotional goals such as relieving parental guilt or smoothing over resentment among offspring. No wonder compensation poses some of the most sensitive and complex problems family businesses face.

Much of the problem occurs when the differences in roles played by family members in the business are not recognized or respected. Entrepreneurs frequently fail to distinguish between their rewards as owners and their compensa-



ILLUSTRATION: TREY THOMAS

tion as key employees. To them, it's all "one pocket."

As a business moves toward another generation, however, this "one pocket" philosophy can cause serious misunderstandings that can harm both family relations and business performance.

The first step toward overcoming such problems is to recognize how flows of funds in family businesses relate to the roles family members play. As family members, they receive gifts, allowances, or bequests. As employees, they receive salaries or wages, benefits, and perks. As owners, they receive funds through dividends or by selling appreciated shares.

Make sure all family members understand what kinds of money are moving from one generation to the next and why. With clear, open, and informed understanding of these matters, family members should experience far fewer conflicts over money.

The next step is to develop and share a new philosophy of family-business compensation. Issues to be considered include how compensation should be related to performance and to what extent being a member of the family should affect pay. Most business owners build a compensation philosophy on a framework that "pays the job"—that is, rewarding employees based on the market value of their position.

Others employ additional "qualitative" criteria that include certain leadership, analytical, communication, or other skills required to do the job. Still other family businesses choose to pay family members more equally. Once a new philosophy has been developed, be sure to communicate it clearly to all employees, owners, and family members.

The mission of a good compensation plan is to keep everyone involved in the business working for what is best for all. Designing such a plan can force business owners to express their most fundamental goals.

A philosophy of compensation that conveys positive values—such as stewardship of assets, personal initiative, and teamwork—can have a powerful impact on everyone it touches.

The Worth Of Work

If you choose to design a compensation plan based on the market value for particular jobs, you may need help determining what market value is. Your accountant or the outside directors on your board may be good sources of advice. Or you could hire a consultant who specializes in compensation issues.

Many of the major consulting groups, such as Ernst & Young, Hay Management Consultants, and Hewitt Associates, have such professionals on their staffs, according to the American Compensation Association.

Other sources of information include industry or trade associations and regional business newspapers' salary surveys.

Family Business Compensation, by John L. Ward and Craig E. Aronoff, is available from Business Owner Resources in Marietta, Ga. The price is \$14.95. For information, call 1-800-551-0633.

Some of the criteria used in determining a job's market value include what others in similar positions are paid, the industry, the size of the company, the number of people an employee supervises, the dollar value of the assets he or she oversees or the sales volume of the employee's department, the cost of living in the area where the employee is located, and the profitability of the enterprise.

MARK YOUR CALENDAR



May 7, Indianapolis

"The Unique Issues of the Family Business" is a half-day workshop sponsored by Indiana University. Call Ann Johnson; (812) 855-4248.

May 13, St. Louis

"Creating and Sustaining a Family Business Culture for Continuous Improvement" is a session of Southern Illinois University at Edwardsville. Call Rich Lumma; 1-800-692-4333.

May 13, Norwalk, Conn.

"Executive Development for Tomorrow's Leaders" focuses on family and nonfamily employees. To be repeated the same day in New Haven, Conn. Call the Center for Family Business at the University of New Haven; (203) 932-7421.

May 14, Wilmington, Del.

"Working With Your Children" is a seminar featuring a panel of business owners. Call Jill Lock of the Family Business Advisory Council; (302) 652-3480.

May 14, Chicago

"The Estate Tax and Family Business Planning Update" is a seminar that is free for CPAs, \$25 for others. To be repeated May 15 in Northbrook, Ill. Call Bradley K. Walton of Signature Financial Services; (773) 380-8070, Ext. 450.

May 29, Salem, Ore.

"How To Be a Good Owner" is a half-day seminar offered by Oregon State University. Call 1-800-859-7609.

May 30, Cambridge, Mass.

"The Successful Family Business Retreat" is a program offered by the Cambridge Center for Creative Enterprise; 1-800-531-5755.

June 4-6, Charlotte, N.C.

"Managing Succession Without Conflict" is a seminar sponsored by the Arthur Andersen Center for Family Business. Contact Ross Nager; 1-800-924-2770.

June 15-18, Boston

"The First Annual World Family Business Conference" focuses on the relationship between the health of family businesses and the economic development of countries throughout the world. Call Judy Simson; (508) 651-3151.

Case Study: How To Be Different From Dad

Jennifer Scott, 38, was recently elected by the board of directors to succeed her father as president of Scott Motors, an automobile dealership with revenues of \$200 million a year. Tired and burned out, her father, Joe Scott, 67, felt he was faltering in the role, and the board agreed with him.

Jennifer wants to show her father that she can manage the business. "But I want to do it my way," she says. She acknowledges that her way is quite different from her father's; nonetheless, she says, "I don't want to alienate him."

Joe's father, the founder of Scott Motors, died when Joe was 35. In succeeding his father, Joe also assumed his father's man-

agement style—that of a "benevolent dictator." Joe did not have a college education when he took over, and he thought Jennifer was foolish when she spent time and money earning a degree.

Joe always thought that the way to manage a business was to make your own decisions and not allow others to know too much—not the family, not the employees, and not the board of directors (who are all

family members, anyway, except for the company attorney). Conversely, Jennifer has already held open meetings with the employees, has met with individual board members to get their views, and is even talking about a team-based approach to management.

"I know my father is concerned about the way I want to manage the company, but you can't run a business in the old style," says Jennifer, who has worked at Scott Motors since she was a teenager.

"What can we do," she wants to know, "to make this transition work for all of us—for Dad, me, the employees, the board, and the dealership?"

Response 1

Take A Long-Term Perspective

Jennifer should think in terms of "successful" and "unsuccessful" management styles, not "old" and "new." Although Joe and his father were so-called benevolent dictators, Scott Motors has been managed successfully through two generations. Jennifer can manage using her own style if she attends to issues involving employees, the company's culture, and her relationship with her father.

For example, Jennifer wants broader participation in decision making. She may possess all the skills necessary to manage in this way, but employees used to a dictatorship may not possess the skills to respond appropriately. She needs to consider what kind of employee training her style will require.

Jennifer's style will necessitate a change in the culture of Scott Motors. It is impossible to switch from a dictatorship to a democracy overnight. Jennifer should maintain a long-term perspective in terms of the organization's response to her style.

To help produce allies that Jennifer will need on the board and among employees, she should tie the need for a new management style to enhanced organizational competitiveness, not simply to



Larry Robertson, executive director of the Family Business Forum at Santa Clara University, Santa Clara, Calif.

a need to do things her way.

Jennifer needs to manage her relationship with her father so that he can become her mentor. She may not recognize this need, and he may not know how to make the transition to this role. This is where executive coaching from someone sensitive to family-business dynamics is helpful.



ILLUSTRATION: STEVE THOMAS

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Georgann Crosby, a consulting partner in the Family-Business Roundtable, a consulting organization in Phoenix. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute. Copyright © by the Family Firm Institute, Brookline, Mass.

Response 2

Aim To Build A Track Record

Jennifer faces two interrelated challenges—establishing credibility and defining accountability.

She must establish credibility as president with several stakeholder groups: the family owners; the board; and employees, vendors, customers, and the financial community. To earn their confidence, she needs to build a track record as a leader who makes timely, effective decisions, man-

ages resources well, and proactively meets the demands of the industry and the marketplace. The process starts with achieving clarity about Jennifer's role, the needs of the business, and the family's expectations about a return on their investment.

Jennifer needs not only the title of president but also the authority to run the company. She needs her father's trust and support, even if her approach differs from his.

Starting with Joe, Jennifer must show stakeholders that changes in leadership style and philosophy result in measurable benefits, such as higher profits, improved employee retention, and faster inventory turnover.

To meet the need for accountability, the board must define expectations for Jennifer's performance based on an assessment of the company's strategic vision and needs. Then Jennifer can develop specific plans for each of the agreed-upon goals.

Over time, her ability to prove herself accountable will enhance her credibility with Joe, the employees, customers, and probably even her bank.



Bonnie M. Brown, president of Transition Dynamics, Inc., a management consulting company in Eugene, Ore.

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March Poll Results Readers' Views

Mixed Results On The Internet

Respondents to a recent *Nation's Business* poll on the Internet, the global network of computer networks, said they have experienced mixed results in their use of this relatively new electronic business tool.

Twenty-six percent of the respondents to the March poll said their use of the Internet has resulted in "decreased productivity," while 15 percent reported "increased productivity." Nineteen percent said they have experienced improved communication with workers and/or cus-

tomers, and 16 percent cited improved marketing and sales since incorporating Internet use in their operations. Nearly one-fourth said the impact was not clear.

While more than three-fourths of the respondents said they were using or planning to use the Internet, nearly one-fourth said they had no plans to use it.

Two-thirds of those who are not on the Internet said they had not gone on-line because they felt it was either too costly or too complex.

Here are the complete results of the poll:

Questions And Answers

Do you use the Internet for business purposes?

| | | | |
|-------------------------------------|-----|--|-----|
| Yes | 54% | No, and I have no plans to do so | 23% |
| No, but I'm planning to do so | 23 | | |

If not, what is your primary reason?

| | | | |
|--|-----|--------------------------------------|-----|
| It's too costly | 36% | I lack the necessary equipment | 10% |
| It's too complex | 31 | I don't need it | 14 |
| I'm concerned about privacy and security | 9 | | |

If you are connected to the Internet, what company provides your connection?

| | |
|---|-----|
| A commercial on-line service, such as America Online, CompuServe, the Microsoft Network, or Prodigy | 43% |
| A company that provides Internet connections only | 8 |
| A cable-TV company | 5 |
| A long-distance phone company | 18 |
| A local phone company | 26 |

If you use the Internet, what has been the major impact on your business?

| | | | |
|--|-----|------------------------------------|----|
| Increased productivity | 15% | Legal problems | 1% |
| Decreased productivity | 26 | Improved marketing and sales | 16 |
| Better communication with workers and/or customers | 19 | The impact is still unclear | 23 |

If you have a home page on the Internet, who designed it?

| | | | |
|--------------------------|----|-----------------------------|-----|
| I did | 3% | An outside consultant | 67% |
| A company employee | 30 | | |

If you do not have a home page, do you plan to have one within the next 12 months?

| | | | |
|-----------|-----|-------------|-----|
| Yes | 39% | Maybe | 34% |
| No | 27 | | |

Where I Stand



On Welfare Changes

In the fiscal 1998 budget that he submitted to Congress earlier this year, President Clinton proposed a number of changes to the 1996 welfare-reform law. Republican congressional leaders, however, generally are opposed to reopening the issue. These questions seek your views on the president's proposals.

Results of this poll will appear in the July issue of *Nation's Business* and will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers below and fax this page to (202) 463-5636.

1 Should Congress consider changes in the welfare-reform law enacted last year?

- 1. Yes
- 2. No

4 Should tax credits to businesses for hiring long-term welfare recipients be increased and extended for another year? (The credits are scheduled to expire at the end of September.)

- 1. Yes
- 2. No

2 Should the federal government spend \$3 billion to help states and cities offer "welfare-to-work" incentives to businesses to hire welfare recipients?

- 1. Yes
- 2. No

5 Should federal grants be given to states to help finance the cost of transporting former welfare recipients to new jobs?

- 1. Yes
- 2. No

3 Should the provision on eligibility for food stamps be eased to allow benefits to able-bodied childless adults for six of every 12 months instead of six of every 36 months?

- 1. Yes
- 2. No

6 Should some basic financial and medical assistance be restored for legal immigrants who become disabled?

- 1. Yes
- 2. No

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Small Business Financial Adviser

A setback in the market; a health-insurance tax break; credit unions' turf battle; brokerage accounts' popularity.

Despite Stumbles, Wall Street Holds Promise

By Randy Myers

This is no time to panic. Sure, the stock market has stumbled recently, sending the average domestic stock fund down 1.98 percent for the first quarter of 1997, the first decline since the final quarter of 1994. Yes, the Federal Reserve Board may raise short-term interest rates again this year to keep inflation under control, even though its decision to raise rates by a quarter of a percentage point in March triggered the market's spring swoon.

And yes, it's not easy to watch your investment portfolio decline in value, as most investors have done recently.

Still, the stock market has a lot going for it. The economy remains strong by almost every measure, which should keep corporate profits healthy, and inflation remains remarkably benign. In fact, the market's fundamental underpinnings aren't much different than they've been for the past 2½ years. Only the interest-rate environment is different, and even there can be found some reason for optimism.

Interest Rates

For starters, this isn't 1994, when the bond market was slaughtered by rising rates, a phenomenon that also dampened enthusiasm for stocks. When the Fed initiated a series of seven interest-rate increases that year, it was starting with rates about two percentage points lower than they were at the beginning of this year. So the amount by which the Fed would have to boost rates this time around should be much smaller, making for less

Performance By Mutual Fund Category

With Dividends Reinvested Through March 31

| Type Of Fund | 1st Quarter | One Year | Five Years |
|-----------------------------------|--------------|--------------|--------------|
| <i>(Figures are percentages)</i> | | | |
| General Stock Funds | | | |
| Capital-appreciation funds | -3.26 | 6.12 | 80.03 |
| Growth funds | -1.28 | 11.74 | 87.43 |
| Midsized-company funds | -5.84 | 4.95 | 83.17 |
| Small-company funds | -6.91 | 4.67 | 87.01 |
| Micro-company funds | -4.88 | 8.55 | 66.40 |
| Growth and income funds | 1.13 | 15.47 | 94.32 |
| S&P 500 Index objective funds | 2.52 | 19.18 | 109.09 |
| Equity income funds | 1.68 | 15.61 | 91.83 |
| General Stock Funds Average | -1.98 | 10.82 | 88.88 |
| Sector Stock Funds | | | |
| Health/biotechnology funds | -1.63 | 2.17 | 89.50 |
| Natural-resources funds | -4.11 | 14.14 | 97.53 |
| Environmental funds | -2.91 | 9.78 | 25.95 |
| Science and technology funds | -8.60 | 7.61 | 155.01 |
| Specialty/miscellaneous funds | -0.25 | 6.21 | 89.05 |
| Utility funds | -1.06 | 8.99 | 89.90 |
| Financial-services funds | 2.29 | 25.81 | 177.78 |
| Real-estate funds | 1.62 | 29.90 | 86.07 |
| Sector Stock Funds Average | -1.84 | 13.39 | 104.41 |
| International Stock Funds | | | |
| Gold-oriented funds | -7.92 | -19.79 | 49.95 |
| Global funds | 0.70 | 11.13 | 75.57 |
| Global small-company funds | -1.61 | 6.25 | 65.57 |
| International funds | 1.34 | 8.70 | 69.82 |
| International small-company funds | 2.08 | 11.72 | 59.93 |
| European-region funds | 4.54 | 21.00 | 93.52 |
| Pacific funds, excluding Japan | -2.69 | -0.73 | 74.30 |
| Pacific-region funds | -3.12 | -3.82 | 53.90 |
| Emerging-markets funds | 9.57 | 13.38 | 69.14 |
| Japanese funds | -6.70 | -18.54 | 5.89 |
| Latin American funds | 13.88 | 31.08 | 27.31 |
| Canadian funds | -6.59 | 4.03 | 53.33 |
| International Stock Funds Average | 1.46 | 7.74 | 66.33 |
| All Stock Funds Average | -1.06 | 10.22 | 86.00 |
| Mixed Equity Funds | | | |
| Flexible portfolio funds | -0.19 | 10.12 | 69.42 |
| Global flexible portfolio funds | 0.76 | 11.20 | 66.05 |
| Balanced funds | 0.00 | 10.74 | 68.32 |
| Balanced-target maturity funds | -1.06 | 5.95 | 54.75 |
| Convertible-securities funds | 0.95 | 10.60 | 73.96 |
| Income funds | -0.05 | 8.72 | 65.69 |
| Mixed Equity Funds Average | 0.05 | 10.36 | 68.24 |

SOURCE: LIPPER ANALYTICAL SERVICES INC.

cataclysmic reactions in the financial markets.

"Certainly, if the Fed raises interest rates several more times it will have an impact," says H. Vernon Winters, chief investment officer for Mellon Private Asset Management in Boston. But, he says, the Fed's resolve to fight inflation, coupled with inflation's good behavior to date, is actually bullish for the bond market, which despises inflation even more than a tight credit stance by the Fed. That's because inflation erodes the value of a bond's interest payments.

"If bonds stay in reasonably good shape, then the equity market is going to do reasonably well, too," Winters says.

That said, no prudent investor could be faulted for at least thinking about tweaking his or her investment portfolio now that the stock market has gone up almost without pause since the beginning of this decade (but for the recent decline and a 7 percent drop in the summer of 1994).

International Stocks

"We've been recommending that people diversify internationally," says Winters. "I know international markets have lagged our own for several years, but we believe that now is the appropriate time to make an allocation to these markets, particularly the emerging markets, where the greatest [economic] growth in the world is occurring. We think returns there will be better [than here] over the next five to 10 years, and we think returns in developed foreign markets will be at least as good as ours."

Emerging markets are those

SMALL BUSINESS FINANCIAL ADVISER

in countries that are only beginning to develop modern economies. Most are in Latin America, Eastern Europe, and the Pacific Rim. During the first quarter, Latin American funds posted an average total return of 13.68 percent, beating out all other categories of funds, and emerging-market funds posted the second-best results with an average total return of 9.57 percent. (Total return reflects price changes plus reinvested dividends.)

George Evans, manager of the Oppenheimer International Growth Fund, shares Winters' bullishness, particularly in Europe and Latin America. Many

European companies are embarking on the same kind of cost-cutting restructurings that U.S. corporations began a decade ago, he says, which should have a positive effect on stock prices there as those firms become more efficient competitors. In Latin America, he is encouraged by events in the bellwether country of Brazil, where the political and economic systems appear to be stabilizing.

Of course, international stock markets aren't the only places where investors might look if they want to lighten their holdings of domestic stocks. The bond market is another, thanks in part to its

lackluster performance in 1996 and its troubled start this year. (The average taxable domestic bond fund tracked by Lipper Analytical Services Inc., a mutual-fund research company in Summit, N.J., posted a total return of minus 0.29 percent in the first quarter.)

Here's the reasoning. At the beginning of 1996, 30-year Treasury bonds were yielding only about 5.95 percent. By the end of this year's first quarter, its yield had pushed above 7 percent, the threshold at which many investors begin to view bonds as a palatable alternative to stocks. Long-term investors like the idea of being able to lock in a 7-percent-plus return on Treasuries with almost no risk if they hold their bonds to maturity. Stocks, after all, have earned an average annualized return of just 10.7 percent since 1925, according to researchers at Chicago-based Ibbotson Associates, but stocks can be much more volatile than bonds.

Stocks To Avoid

Investors who do stick it out in the domestic stock market (and most should, particularly if they are investing for the long term) may still find themselves puzzling over which sectors of the market to emphasize in their portfolios. Here's one virtual certainty: If the Fed does institute a series of interest-rate increases, utilities and financial issues would suffer more than other types of stocks.

While funds that invest in utility companies posted a modest 1.06 percent loss in the first quarter, financial-services funds, led by strength in banking stocks, managed a 2.29 percent gain.

Bank stocks could continue to do well if the Fed doesn't boost short-term interest rates by more than another one-quarter percentage point, according to Kenneth Feinberg, co-manager of the Davis Financial Fund, long a stellar performer in the financial-services sector.

He says most banks can use increases of up to half a percentage point to their favor by raising the rates they charge on loans but holding steady the rates they pay depositors. If interest rates go up more than that, Feinberg warns, loan demand could shrivel and hurt bank profits.

"We're still very bullish on the prospects for bank stocks," Feinberg concludes, "but knowing that, one should never expect anywhere near the gains investors have gotten in the last few years. One has to have more-reasonable expectations."

Most stock analysts would suggest that as a reasonable way to view the stock market as a whole right now. ■

Randy Myers is a financial writer in Dover, Pa.

Stock Performance In The First Quarter

| Industry Group | Change In Value Jan. 1 To March 31 (Figures are percentages) |
|----------------|--|
|----------------|--|

| | |
|------------------------------|------|
| Retail—discount, drugs | 11.5 |
| Food production | 9.3 |
| Savings and loans | 8.9 |
| Textile manufacturing | 7.8 |
| Food—confections | 7.2 |
| Retail—apparel | 7.1 |
| Machinery—light equipment | 6.0 |
| Recreation—movies, sports | 5.7 |
| Freight, shipping | 5.6 |
| Oil, refining, marketing | 5.5 |
| Business equipment | 5.2 |
| Shoes, leather | 5.0 |
| Drug manufacturers | 4.5 |
| Banking | 4.5 |
| Publishing | 4.5 |
| Food—packaged goods | 3.4 |
| Airlines | 2.6 |
| Retail—department stores | 2.5 |
| S&P Industrial Index | 2.2 |
| S&P 500 Index | 2.2 |
| Electronics | 2.1 |
| Dow Jones Industrial Average | 2.1 |
| Insurance | 2.1 |
| Chemicals | 2.0 |
| Metals—nonferrous, coal | 1.9 |
| Investments | 1.6 |
| NYSE Index | 1.6 |
| Distillers—brewers | 1.4 |
| Machinery—heavy | 1.1 |
| Housewares, furnishings | 1.0 |
| Retail—food stores | 0.7 |
| Tobacco | 0.4 |
| Textiles—apparel | 0.4 |
| Media General Stock Index | 0.0 |

| Industry Group | Change In Value Jan. 1 To March 31 (Figures are percentages) |
|----------------|--|
|----------------|--|

| | |
|-----------------------------|------|
| AMEX Index | -0.4 |
| Metals fabrication | -0.7 |
| Electrical equipment | -0.7 |
| Multi-industry | -0.8 |
| Real estate | -0.9 |
| Paper, packaging | -1.6 |
| Oil, natural-gas services | -1.8 |
| Automotive | -2.0 |
| Credit | -2.1 |
| Precision instruments | -2.5 |
| Real-estate investing | -2.7 |
| Building | -2.7 |
| Communications | -2.8 |
| Railroads | -2.9 |
| Foods—meats, dairy | -3.3 |
| Aerospace | -3.4 |
| Recreation—broadcasting | -3.5 |
| Hotels, motels, restaurants | -3.5 |
| Utilities—electric | -3.6 |
| Health | -3.7 |
| Retail—miscellaneous | -3.7 |
| Utilities—gas, other | -3.8 |
| Business services | -4.1 |
| Building—heavy | -4.8 |
| Personal services | -4.9 |
| Cosmetics—personal | -4.9 |
| Metals—iron, steel | -5.0 |
| Rubber, plastic | -5.3 |
| Nasdaq Index | -5.4 |
| Metals—rare | -7.2 |
| Oil, natural-gas production | -7.3 |
| Recreation—luxury | -8.1 |
| Business data processing | -8.4 |

SOURCE: MEDIA GENERAL FINANCIAL SERVICES

SMALL BUSINESS FINANCIAL ADVISER

EMPLOYEE BENEFITS

Banks Challenge Credit Unions' Growth

A representative of the AT&T Federal Credit Union visited the Discwax Co., Inc., of Stanley, N.C., about two years ago to ask executives there to consider offering credit-union membership as an employee benefit. At no cost to the company, their employees could gain access to low-cost auto loans, Christmas and vacation savings clubs, and automatic deposit of their paychecks, among other services.

"As we looked into it, it sounded good,

with 35 million employees who belong to 3,586 federally chartered credit unions. Now, because of a lawsuit brought by the American Bankers Association, the Discwax employees' membership in the AT&T Federal Credit Union is threatened, and other small businesses are barred from even applying for credit-union affiliation.

The lawsuit was filed in 1990 by the bankers group and five North Carolina banks against the AT&T credit union. It charged that the credit union had illegally expanded its membership beyond the original group it was set up to serve—AT&T's employees.

A federal District Court ruled in favor of the credit union. But last summer, the U.S. Court of Appeals for the District of Columbia Circuit reversed the lower-court decision and found in favor of the bankers. The bankers were then successful in having injunctions issued against not only the

AT&T credit union but also all 3,586 federal credit unions.

This initially stopped the federal credit unions from taking new members, even from already-affiliated companies such as Discwax, but a later ruling limited the

freeze so that now no new companies can join. Employees from affiliated companies can still sign up.

Should the Court of Appeals ruling stand, the credit unions could be forced to close the accounts of most of their members, says Lesia Bullock, a spokeswoman for the National Credit Union Administration, which regulates federal credit unions.

The Supreme Court in February agreed to hear the case next fall, with a ruling likely in the summer of 1998.

Congressional committees are gathering information that could lead to a legislative fix to make it clear that Congress never intended to limit credit-union membership to original groups.

"We feel this [lawsuit] is motivated by greed," says Bullock. "They [the banks] see the \$320 billion in credit-union assets, and they want it, and the credit unions are easier to pick on than the mutual funds, insurance companies, and finance companies who are the ones taking market share away from the banks."

The issue is not at all one of "industry versus industry," says Charlotte Birch, a spokeswoman for the American Bankers Association. Rather, it's about unfair competition. Unlike banks, she points out, credit unions are nonprofit entities and thus are not subject to taxation.

—Frances Cerro Whittelsey

The author is a free-lance writer in Huntington Bay, N.Y.



and it has worked very well," says Pat Palmquist, controller at Discwax, an equipment maker for the textile industry. "We've had close to 60 percent participation."

Discwax is one of 150,000 businesses

SELF-EMPLOYMENT

How To Deduct 100% Of Health-Care Costs

If you're self-employed and married, there's a little-known but fully legal way for you to deduct 100 percent of your medical costs.

The technique involves Section 105 of the tax code, which governs accident- and health-insurance plans and allows certain self-employed workers to write off all medical costs as business expenses. These costs include insurance premiums and uninsured expenses such as copayments, prescription drugs, and dental and eye care.

By comparison, the standard health-care deduction for the self-employed is only 40 percent of costs.

The key is to hire your spouse as a salaried, bona fide employee. You then can create a Section 105 benefits package that provides the employee with family medical coverage (covering husband, wife, and children). That permits the business

owner to deduct the full cost of the family's health care, including uninsured medical costs, as a business expense.

"Section 105 has been around for a long time. It has been tested under [Internal Revenue Service] audit, and it has been upheld," says Gene Fairbrother, a financial consultant to the National Association for the Self-Employed (NASE) in Washington, D.C. But he adds that "some businesses have lost [IRS audits] because they did not have a specific written [Section 105] plan, and they didn't keep receipts. You have to have substantiation."

The IRS agrees. "It is true that you can do this, but there are a lot of pitfalls," warns Jodi Patterson, an IRS spokeswoman. "The bottom line, from our perspective, is that a person who's going to do this should be very careful that they fall within this situation. They should check with a tax attorney."

The nation's largest administrator of Section 105 plans is AgriPlan/BizPlan, a

Madison, Wis., firm that charges \$175 a year to set up a plan and handle the paperwork. The firm, which provides the services to members of 18 state chapters of the American Farm Bureau in addition to other small businesses, says that last year it put together Section 105 plans for 40,000 small-business owners—including farmers—who had an average tax savings of \$1,800.

BizPlan is so confident that its technique complies with IRS rules that it offers customers a guarantee that they will pass an IRS audit "if all procedures are adhered to."

BizPlan notes that owners of larger firms can also establish Section 105 plans but that the plans work best for husband-and-wife operations. Because all employees must be offered the same benefits, Section 105 plans can become prohibitively expensive if there are a number of employees in addition to the spouse.

—Stephen Blakely



INVESTING

Brokerage Accounts Jazz Up 401(k) Plans

By Randy Myers

When Eugene Kahle went shopping for a new 401(k) plan for his employer, TAP Publishing Co. in Crossville, Tenn., he knew he wanted a plan that would offer a wide range of investment choices.

He got enough to satisfy even the most adventurous 401(k) investor: a Charles Schwab & Co. plan that offers participants 11 mutual funds plus a full-blown brokerage account that gives them access to any mutual fund, stock, or bond that Wall Street has to offer.

"I do not want any employee to ever come to us and say that we are hindering him in his investment choices," says Kahle, controller of the 125-employee company. "This plan eliminates that possibility."

Look for more companies to offer employees brokerage accounts, particularly as U.S. workers become increasingly savvy about their investment activities and see their maturing 401(k) accounts grow into six-figure assets.

Three years ago, Access Research Inc., a financial-services consulting firm in Windsor, Conn., did not even ask 401(k) participants whether they had access to brokerage accounts when it conducted its biannual survey of their investment activities. Last year it did ask—and got responses indicating that 4.5 percent of the nation's 23.5 million 401(k) participants could access a brokerage account and that 13 percent of those with access did so. Those who use brokerage accounts typically have the largest balances.

Where The Demand Arises

To date, 401(k) brokerage accounts have been most popular among two types of employers: those that are very large and inclined to offer as many investment options as possible to their broadly diversified work force, and smaller, white-collar companies where an above-average percentage of employees are likely to have investment expertise.

Law firms, accounting firms, engineering companies, and software con-

cerns have been among the first to adopt such accounts, according to Jeffrey Close, a vice president of Access Research.

Stephen Butler, president of Pension Dynamics Corp., a third-party pension-administration firm in Lafayette, Calif., says: "The brokerage-account option is a very effective tool because it blunts criticism of a plan over its investment choices. You open up the entire universe of traditional investment opportunities without saddling the entire plan with the cost of providing that flexibility."

Plan sponsors don't pay extra to offer brokerage accounts because the associated costs—typically a small annual fee plus any trading commissions—are charged directly to the plan participants who use the accounts.

At TAP, employees who use Schwab's Personal Choice Retirement Account pay a \$250 setup charge and an annual fee of \$100, plus any commissions or mutual-fund sales fees they incur. Butler's company charges plan participants \$500 per year plus applicable commissions or sales fees.

Not For Everyone

Although offering access to a wide variety of investment options could be beneficial for some employees, for others it could be like giving a person with a sweet tooth the keys to a candy store. Overly enthusiastic or unsophisticated investors could buy stocks based on ill-advised tips or could churn their accounts in bursts of overzealous trading, piling up trading commissions that would eat deeply into their profits. Critics fear that unsophisticated investors would lose a substantial portion of their retirement savings.

"For the average participant who doesn't already have some expertise in buying and selling individual securities, it's not a particularly useful option," says Close.

At TAP, which publishes trade magazines and operates a commercial printing business, only four of the 118 employees enrolled in the company's 401(k) plan take advan-

tage of the brokerage-account option, and one of them is Kahle. Rather than push other employees to join him, Kahle worries about making sure that investment novices don't get in over their heads.

"Before an employee takes advantage of this, I undertake to make sure they know what they're getting into," Kahle says. "This option would actually represent a disadvantage to employees if they were not knowledgeable about investments and started using the account to haphazardly make decisions, like chasing the hot fund of the day."

Of course, not every company has someone who, like Kahle, has the time, financial savvy, or inclination to help employees decide whether a brokerage account is right for them. Instead, some employers try to safeguard their workers by limiting the investment choices available through the brokerage accounts.

Schwab will make trading in stock options available on a limited basis through its Personal Choice Retirement Account, for example, but TAP Publishing excluded access to stock options in its plan.

Some companies go even further, limiting investment choices strictly to mutual funds, albeit far more than are available in 401(k) plans without brokerage-account options.

Making It Happen

If your company's 401(k) plan is administered by a third party, a company that oversees the plan's operations but doesn't provide the investment vehicles, chances are you could add a brokerage-account option with relatively little trouble.

In addition to Schwab, a number of large 401(k) vendors offer the accounts, according to Close. These include American Express, Diversified Investment Advisors, Fidelity Investments, Merrill Lynch, Met Life, and State Street Global Advisors.

Even if only one or two key employees in your company decided to use a brokerage account in their 401(k) plans, making it available to them could prove helpful in keeping them on your staff. There aren't many perks that can do that without costing your company money.

This is the second in a three-part series on

401(k) plans.



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You Didn't Know You Needed That?

Good entrepreneurs have been accomplishing it for centuries: uncovering needs their customers didn't even know they had—and satisfying those needs. Sometimes, though, you have to feel a twinge of doubt. Is the need really there? If it is, does it really need to be satisfied? Does every itch require a scratch?

Such thoughts were inspired by some greeting cards that recently crossed our desk, arousing in us both admiration for entrepreneurial spunk and profound curiosity about the intended market.

Greeting Cards For Pets

These fall in the same category as fancy funerals, we suppose; of no interest whatsoever to the recipient of all the attention but most gratifying to devoted onlookers.

Lisa Shaw, who sells a line of such cards under the Litterature label, suggested when she sent us some samples recently that business people could "twist the typical custom of personalizing their business and sales meetings by asking customers about their kids and golf games and instead earn their loyalty forever by sending their cat or dog a holiday card, get-well, or birthday card."

Well, maybe. You'd have to be pretty careful which customers' pets you favored with cards. Send one customer's cat a card, and that customer might collapse in tears, then call you up and order another



gross of whatever you're selling. Send a thinking-of-you card to another customer's bulldog, though, and that customer might decide you need a leash. Proceed with caution.

You can get a Litterature catalog by calling (603) 523-7877 or writing to the firm at RR 1, Box 1234, Grafton, N.H. 03240.



Talking Greeting Cards

A Newport, R.I., company called Greetings from Newport sells Say-It-Yourself cards, which look like ordinary greeting cards, only thicker. The sample we got says, "I Couldn't Find the Words to Write..." on the front; open it up and it says, "So I Recorded Them!" And, in fact, the card plays back whatever message you have recorded (by talking while you're pressing a button).

What makes such a card so appealing, of course, is its potential for mischief. Let your imagination run wild. You could have some fun around the office

by recording an off-the-wall announcement and seeing if anyone takes it seriously.

As much fun as they are, such cards hold hazards. We see that there's one card that says on the front "100% Pure Emotion Inside..." and on the inside "From 100% of Me." Give such a card to a co-worker, with the wrong kind of recorded message, and a sexual-harassment suit could follow. Better you should send a Litterature card to that co-worker's cat instead.

To find out where you can

time he's writing "I will not carve gods," another it's "I will not aim for the head."

Reading over the list of the admonitions imposed on Bart, we were struck by the thought that many of them could be adapted into guidelines for clueless business people.

Here are a few examples, covering a range of business challenges from sexual harassment to facilities management to human resources:

I will not snap bras.

I will not charge admission to the bathroom.

I will not fake my way through life.

I will not torment the emotionally frail.

See what we mean? Why, with a little effort, Bart's thoughts could be converted into one of those nasty little business books with a title like "Everything I Need to Know About Business I Learned From My Goldfish." Tom Peters, if you're reading this—we had the idea first.

... And Work Of Art

A few months ago, we told you about Jeff Lotman, a collector of animation art who turned his hobby into a deluxe book called *Animation Art: The Early Years 1911-1953* (Schiffer Publishing, \$125). Lotman has now come out with a second volume, *Animation Art: The Later Years 1954-1993*, from the same publisher and for the same price. As the dates suggest, it embraces a lot of television cartoons; the "art" in this volume is not that of "Fantasia" but of Fred Flintstone—and, of course, Bart Simpson. *Chacun à son goût*, as they say all the time on "Ren and Stimpy."

buy Say-It-Yourself cards, call 1-800-55-SAY-IT (1-800-557-2948).

Bart Simpson, Guru...

Regular viewers of "The Simpsons" (aren't we all?) know that they must start watching from the very start of the show. Otherwise, they'll miss what Bart Simpson, the juvenile delinquent in the show's dysfunctional cartoon family, is writing on the blackboard as punishment after school. Bart's punishment varies from week to week; one





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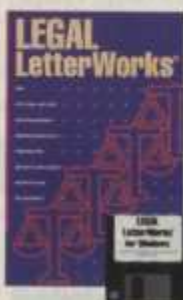
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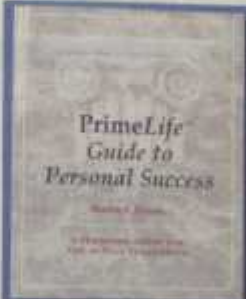
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Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Stephen Blakely

CONTRACTS

Creating A Paper Trail For Negotiations

I have been asked to write a standard operating procedure on negotiating contracts with our suppliers. My company wants a policy to follow when it gets hit with a price increase that seems excessive. Where can I find an outline or a model?

C.A., Shawnee, Kan.

For starters, read all existing contracts with vendors carefully to see what terms they might include for price increases. For instance, your company may have agreed to let suppliers simply pass along manufacturers' increases.



ILLUSTRATION: MARTHA VOUGHER

A quick and inexpensive option is to write a simple statement or general policy that your company can use to renegotiate prices with suppliers. For example, your policy might require that any price increase above inflation be justified or the contract will be automatically subject to re-bid.

"There's no reason you can't do that," says Alan Kline, corporate director for strategic sourcing for the American Management Association (AMA) in New York City. "Hold a hard line and make suppliers justify their increase."

The AMA each year sponsors hundreds of seminars around the country on aspects of managing a business; several conferences focus on purchasing management. Call 1-800-262-9699 for details. In addition, the AMA's Information Resource Center can provide information packets and articles on how other companies have handled similar problems. Call the center at (212) 903-8182.

Another professional organization that can help you learn how to deal with suppliers is the National Association of Pur-

GETTING STARTED

Computer Consulting

I would like to start a computer consulting business, which would provide experts to companies in need of programming assistance. How would I go about doing that?

J.K., West Orange, N.J.

The Independent Computer Consultants Association, based in St. Louis, offers its members information designed to help start-up consultants. The organization also can supply professional and business-development resources for more-established operations. You can contact the association at 1-800-774-4222 or at www.icca.org on the Internet.

In addition, the group's members can put you in touch with people who have specialized skills you may need for a particular contract. Membership costs \$100 to \$275 a year, depending on the size of the consultancy. The association will hold its annual meeting in Minneapolis this June, and it has local chapters throughout the country.

Once you have defined the business niche you want to serve (based on your education or your experience in the business), you can search the Internet to find a professional trade or interest group for your sector.

Other possible sources include the Information Systems Consultants Association, based in Atlanta; (770) 491-1500 or www.mindepring.com/~isca. Its members specialize in servicing business-

chasing Management in Tempe, Ariz.; (602) 752-6276. Many of the association's members are buyers for large companies. The organization sponsors a certification program for purchasing managers.

To compare the prices you're paying with what others are paying, get a copy of *The Essential Business Buyer's Guide*. It's filled with the going rates for most office products and services, and it lists vendors. The book is compiled by the staff of the *Business Consumer Guide* and is published by Sourcebooks, Inc., in Naperville, Ill.; (630) 961-2161.

ON

information systems. And the National Association of Computer Consultant Businesses (1-800-313-1920 or www.naccb-resourcecenter.com) in Washington, D.C., represents established companies that provide a wide range of hardware, software, and programming support.

Gearing Up

I'm interested in starting an automotive-repair service. Whom can I contact for information?

How do I secure a loan, work space, insurance, and equipment?

E.R., Oxnard, Calif.

The Automotive Service Association (ASA) in Bedford, Texas, runs the ASA Management Institute, which offers classes geared to start-up independent repair shops. Most of the association's members run small body-shop and mechanical-

HOW TO ASK

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GETTING STARTED

repair garages. Call 1-800-272-7467 or visit the group's Internet site at www.asashop.org.

You can also contact the Automotive Maintenance and Repair Association (AMRA) in Washington, D.C.; (202) 466-7050. AMRA represents repair shops and runs the Motorists' Assurance Program, a soon-to-be-national set of repair and service standards that member garages pledge to follow.

Larry Heckler, AMRA's president, says that "years ago you could get into general auto repair fairly easily, but it's not that simple anymore."

Most of today's cars are extensively computerized, and servicing those components requires costly diagnostic equipment and specialized training.

Environmental restrictions add significant equipment and insurance costs for certain services, such as oil disposal, air-conditioning repair, and emissions testing. Local governments often have their own, additional rules that can raise overhead costs.

Faced with such requirements, Heckler says, many independent repair shops find they can be more competitive if they specialize in certain types of repairs or if they become franchisees of national automotive-service companies. ■

MARKETING

A Printing Brokerage Seeks A Strategy

Our small printing-services brokerage is trying to create a marketing plan for the Miami area. Where can I get information on the printing-brokerage industry?
J.C., Miami

Try the industry's trade group, the Printing Brokerage Buyers Association, based in Palm Beach, Fla.; 1-800-448-8952. Vincent Mallardi, executive director of the association, says the 9,000 printing brokers in the United States generate a total of about \$5 billion in annual revenue. (Printing overall is a \$96 billion industry.)

Printing brokers help customers locate printers and also assist with the design, copy preparation, and other details of a printing job.

Mallardi says about 500 large printers, each with \$5 million or more in annual sales, dominate the business, and the remaining 8,500 printers are small firms, most with \$100,000 or less in annual revenue.

A brokerage's marketing strategy, he says, usually starts with the December issue of *American Printer*, which provides a

forecast of printing demand for the year ahead for major business sectors, broken down by geographic markets across the country. The magazine is available for \$50 a year from Intertec Inc. of North Brook, Ill.; 1-800-811-3255.



The forecasts are compared with county-level "standard industry classification" (SIC) codes to identify the kinds of businesses in an area that are likely to need printing services in the coming year, Mallardi says. You can use your phone book to find companies in each category, or you can use a mailing-list firm to reach your targeted audience. ■

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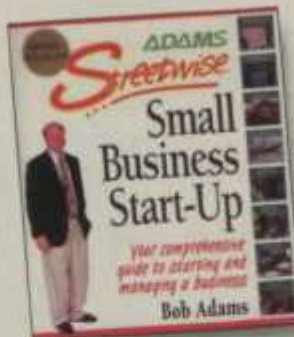
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Editorial

The Many Failings Of The Clinton Budget

President Clinton has made yet another commitment to a balanced budget with yet another plan that offers little prospect for achieving that goal. His 1997-98 budget, which is now under consideration in Congress and which contains budget projections for the next five years, purports to achieve a surplus by 2002.

Experts on Capitol Hill and in the private sector say, however, that the procedures he suggests for reaching that point will not work. (See the accompanying chart.)

A leading private-sector expert on economic policy and government finance spotlighted the many shortcomings of the Clinton budget in recent testimony to the House Ways and Means Committee. Martin Regalia, vice president and chief economist of the U.S. Chamber of Commerce, told the panel: "The fact is that the president's budget is little more than a shell game, and, sadly, it is the American people who are the losers."

While the administration might achieve a short-term balance through "smoke and mirrors," Regalia added, "there is no question that this budget does nothing to maintain long-term balance."

Regalia pointed out that the Clinton budget:

- Fails to address the growth of entitlement spending, the greatest obstacle to budget balance.

- Defers major deficit reduction and the spending cuts it requires to the later years of the period, when Clinton will no longer be in office.

- Claims \$98 billion in tax reductions but actually provides for no more than \$22 billion in tax relief over the full five years.

And even the president's tax cuts could be canceled in three years, Regalia noted. Clinton proposed automatic repeal of many of his tax cuts and imposition of additional

spending restraint if necessary to achieve the balanced-budget goal by 2002. However, Regalia said, legislative language submitted by the Treasury Department to the Joint Committee on Taxation after the president's budget

was announced provides for expiration of several of the Clinton tax-cut provisions regardless of how close the budget is to balance as the year 2002 approaches.

Regalia expressed particular concern about Clinton's failure to deal with basic economic policies. The present tax system, he said, "encourages waste, retards savings, and punishes capital formation." He told the committee that "the president's budget perpetuates the present anti-growth policies that have limited productivity for the past 25 years."

He urged Congress to adopt fiscal and economic policies that would include a balanced budget; repeal or at least reform the estate- and gift-tax system, which often threatens the survival of family businesses; expand eligibility for individual retirement accounts; reduce the tax on broad-based capital gains; and eliminate or substantially reform the alternative minimum tax.

All those steps, he explained, would help create jobs by making significant amounts of new capital available for investment. Lower tax burdens, he added, would also make U.S. companies more competitive in global markets.

In summing up his testimony, Regalia offered a far more effective and credible basis than the president has produced for ensuring long-term prosperity. "As we prepare for the economic challenges of the next century," Regalia said, "we must orient our fiscal policies in a way that encourages more savings, more investment, more productivity, and, ultimately, more economic growth." ■

Disagreement On The Deficit

President Clinton says his budget proposals would produce a surplus by fiscal 2002, but the nonpartisan Congressional Budget Office says they would keep the red ink flowing. Here are their deficit projections; amounts are billions of current dollars.



Clinton Budget Proposals



Congressional Budget Office

| | 1997 | |
|--------|------|--------|
| \$-126 | | \$-116 |
| -121 | 1998 | -145 |
| -117 | 1999 | -142 |
| -87 | 2000 | -135 |
| -36 | 2001 | -95 |
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The Business Advocate

SUPPLEMENT TO **Nation's Business** MAY 1997



Published By
U.S. Chamber of Commerce



U.S. Chamber President Richard L. Leshner, right, and D. Michael Meyer, president of Cap Gemini America, sign an agreement for the computer-technology-services firm to modernize the Chamber's information and communications systems to improve service to Chamber members. Story, Page 2A.

Comp-Time Action Urged

The U.S. Chamber of Commerce is urging the Senate to approve legislation that would grant employees more flexibility in their work schedules; the House passed such a measure March 19.

The Senate bill would allow employers

to give their hourly workers the option of taking compensatory time off in lieu of overtime pay.

It also would allow flexible scheduling by changing the 40-hour workweek, which is the standard that triggers overtime pay

Continued on Page 15A

■ Information Exchange

Improved Member Service Is Goal Of Chamber Technology Overhaul



Employees of Cap Gemini America work at the U.S. Chamber writing database software, a key component of the state-of-the-art technology infrastructure being developed for the organization.

In one of its most important undertakings in recent years, the U.S. Chamber of Commerce is completely reconstructing its information-technology infrastructure to improve service to its members.

"The Chamber is an organization whose primary focus is serving its membership," says Lawrence B. Kraus, senior vice president for administration. "Modernizing our information and communications systems will enable the Chamber to efficiently and effectively maintain that member-service focus into the next century."

The overhaul of the Chamber's computer systems is being performed by Cap Gemini America (CGA) under the terms of a recently signed outsourcing contract. CGA and its partner companies in the project are also modernizing the Chamber's phone system. Both the data and voice-communications systems will be updated as necessary to ensure that they are state-of-the-art.

CGA is a subsidiary of Cap Gemini Sogeti, the world's third-largest provider of technology services, with more than \$4 billion in annual revenues and about 30,000 employees worldwide.

"The decision to outsource technology operations will enable the Chamber to

shift resources formerly expended in maintaining information systems to the core advocacy activities that members value most," says Edward Zier, the Chamber's vice president for operations.

Currently, Chamber membership and other business information is maintained in various databases—there are about 4,000 of them, some in use as long as 35 years—installed on a mainframe computer.

"This is an ineffective and error-prone situation," says Zier.

Moreover, like the mainframe-based software of most large businesses and organizations, the Chamber's programs are subject to the "year 2000 problem."

The problem will arise in old software that was not engineered to deal with 21st century dates.

The replacement software is being designed by CGA to meet the special needs of the Chamber and to solve the year 2000 problem. More important, the new software will be a powerful tool that Chamber employees can use to analyze information to meet member needs faster and more effectively than ever. For example:

- If a key vote is about to occur in Congress on important legislation, the Chamber will be able to alert members who have expressed interest in that subject matter instantly via fax or electronic mail.

- Orders for Chamber publications or other products will be fulfilled far more expeditiously than under the present system.

- Chamber members will have more choices on how they want to receive information from the organization.

- The Chamber will be able to customize its membership services for each member firm or organization.

- Chamber staff members will be better able to understand and represent the membership on key legislative and political issues as a result of enhanced polling and communications capabilities.

"The new information system is a framework for harnessing knowledge," says Zier. "We have a wealth of knowledge at the Chamber, mostly held in bits and pieces by those throughout the organization. Consolidating this knowledge for use by the entire staff will dramatically increase the staff's collective IQ."

■ Internet

Chamber Activities Posted On Web

The address for the U.S. Chamber of Commerce's new site on the Internet's World Wide Web is www.uschamber.org.

The Chamber home page includes information on Chamber activities, the organization's position on legislative issues, and details about the business federal-

tion's programs and services. Chamber members can visit a "Members Only" section using their Chamber identification number to obtain more-detailed information about the organization's activities. (If you don't know your Chamber ID number, call the 800 number on the members-only Web page.)

■ Benefits

Chambers Eye Retirement Plan

The employees of the Cape Cod Canal Region Chamber of Commerce in Bourne, Mass., wanted a retirement plan. But the administrative costs of most plans on the market were too much for the small chamber.

"We didn't want a plan that cost more to administer each year than the amount we'd be able to put into the employees' accounts," says Christopher B. Cooney, the chamber's president and CEO.

Then he learned about the package of retirement plans offered through the U.S. Chamber of Commerce by Fidelity Investments. The plans were designed to meet the needs of small businesses.

As the Cape Cod Canal chamber's sign-up demonstrates, the package can also meet the needs of chambers and trade associations, many of which have a small number of employees.

"The plan fit our needs as a small business and a small chamber in terms of our employees," says Cooney, who has three full-time employees and nine seasonal workers to help handle the summer tourists who flock to the popular Massachusetts area, bringing an



Christopher B. Cooney, president and CEO of the Cape Cod Canal Region Chamber of Commerce in Bourne, Mass., enrolled his organization in the CHAMBERplan for Retirement, offered by the U.S. Chamber and Fidelity Investments.

infusion of income to local businesses.

The CHAMBERplan for Retirement, as the program is known, has been designed to be accessible, affordable, and convenient for members of the U.S. Chamber.

The products in the CHAMBERplan offered by Fidelity include 401(k), Keogh, SEP-IRA, and SIMPLE—Saving Incentive Match Plan for Employees—plans. The CHAMBERplan products are designed primarily for businesses—and chambers and associations—with fewer than 100 employees.

Fidelity provides investment management, record-keeping services, and employee-communications materials for the retirement plans.

Like small businesses, many chambers of commerce have found most retirement plans too costly and too complex to administer.

Less than half of the thousands of state and local chambers of commerce in the country have retirement plans for their employees, according to surveys conducted by the U.S. Chamber.

Interest in the CHAMBERplan among chambers is starting to pick up. Fidelity, which introduced the CHAMBERplan last May, has received more than 200 inquiries about the program from small chambers in the past few months.

The Cape Cod Canal Region Chamber

is believed to be the first chamber to sign up for the CHAMBERplan.

Costs and administration were factors in Cooney's selection of the CHAMBERplan, he says. The plan picked for the three eligible chamber employees—the SIMPLE plan—costs \$325 a year to administer. Additionally, Fidelity will waive the administrative fee for the first year.

The response from Fidelity also led Cooney to choose the CHAMBERplan for Retirement.

"Fidelity was excellent in terms of our dealing with their customer-service people," he says. "They were knowledgeable, and they ... got back to us on time with information we needed."

Fidelity Investments, with total managed assets of \$513.5 billion as of March 1997, is one of the country's leading providers of financial services. It is the nation's largest mutual-fund company and the second-largest discount brokerage firm; it is the third-largest provider of retirement plans to not-for-profit institutions, such as chambers of commerce.

Says the Cape Cod Canal chamber's Cooney: "I think it's important for the word to get to small and medium-sized chambers that currently do not offer any retirement plan that [the CHAMBERplan] is a good plan for those organizations."

■ 'First Business'



Sen. Fred Thompson, R-Tenn., is interviewed about the Senate's agenda by "First Business" reporter Dan Kush. The U.S. Chamber's weekday television news show can be seen on 108 stations across the country. One of the latest stations to begin broadcasting the program is WBIS in New York City, which reaches nearly 7 million households.

■ Commerce

Business Calls For NAFTA Action

The United States should press for full implementation of the North American Free Trade Agreement (NAFTA), the inclusion of Chile in the pact, and establishment of a free-trade area encompassing the entire Western Hemisphere, a spokesman for the U.S. Chamber of Commerce told a congressional panel recently.

Willard A. Workman, vice president/International for the Chamber, told the House International Relations Subcommittee on International Economic Policy and Trade that the trade pact among the U.S., Mexico, and Canada has helped the U.S. create jobs and spur economic growth and has "begun a program for sustained economic strength in the Americas." In his March 5 testimony, he gave NAFTA a grade of "A."

Since the agreement took effect Jan. 1, 1994, Workman noted, NAFTA has helped boost U.S. exports to Canada and Mexico. Exports to both countries in 1996 amounted to more than \$190 billion, a 9 percent increase over the \$173.4 billion total in 1995. Goods shipped to Mexico



U.S. Chamber Vice President Willard A. Workman urged Congress to implement fully the North American Free Trade Agreement among the U.S., Mexico, and Canada.

have increased 36 percent since the pact was signed.

Still, said Workman, many important provisions of NAFTA have yet to be implemented, and several issues remain unresolved, including a dispute between the U.S. and Mexico over cross-border trucking. He urged trade officials to resolve the issues and implement NAFTA fully.

Workman also called on Congress to pass fast-track trade-negotiating authority so that President Clinton and his trade representatives can begin discussions on bringing Chile into NAFTA. Fast-track authority enhances U.S. trade negotiators' position by enabling them to assure the other parties to the negotiations that whatever the sides agree on in the talks cannot be altered by Congress—only accepted or rejected.

Fast-track authority would also enable the United States to play a role in the formation of a Free Trade Area of the Americas, a concept proposed by Clinton and agreed to by the 34 democratically elected leaders of the countries in the Western Hemisphere.

■ Testimony

Chamber Urges Specific Trade Goals

The United States must place a renewed emphasis on efforts to attain a "level playing field" for U.S. business in global markets, a spokesman for the U.S. Chamber of Commerce told a House trade subcommittee.

Bruce D. Cowen, a member of the Chamber's board of directors, told the House Ways and Means Subcommittee on Trade that the U.S. should pursue several trade goals to meet the challenges of the growing global marketplace. Cowen is president of TRC Companies, Inc., an international environmental engineering and consulting firm in Windsor, Conn.

Among those goals, he said, are:

- Continuing normal U.S. trade relations with China. Cowen said the U.S. should renew the Asian nation's most-favored-nation (MFN) status.

China's MFN trade status expires June 30. While President Clinton is expected to renew the designation and Congress is not required to approve that action, lawmakers can call for a vote to

reject MFN trade status.

- Reauthorizing U.S. trade-development programs such as the Overseas Private Investment Corp. and the Export-Import Bank.

The Ex-Im Bank provides low-cost loans for U.S. companies to export goods. OPIC provides insurance to protect U.S. exporters in the event that they are not paid for their goods or services.

- Bringing Russia and China into the World Trade Organization (WTO). The Chamber supports this move provided those countries implement market-oriented trade policies and abide by WTO rulings, Cowen told the panel.

- Renewing fast-track trade-negotiating authority, which assures other



U.S. Chamber board member Bruce D. Cowen called on lawmakers to adopt trade policies that will improve the competitiveness of U.S. companies.

countries that are parties to trade negotiations with the U.S. that Congress will approve or reject trade agreements but will not amend them.

- Ending the practice of imposing unilateral trade sanctions against countries.

"Unilateral economic sanctions," Cowen told the subcommittee, "almost invariably produce

the same adverse results: further isolation of U.S. foreign policy, reinforced rather than weakened hostile regimes, and diminution of economic opportunity for U.S. firms and their workers."

■ NCLC Action

Freedom Of Speech At Issue In Courts

The National Chamber Litigation Center, the public-policy law firm of the U.S. Chamber of Commerce, is participating in two legal cases that could have a significant impact on business.

"Both cases deal with business's fundamental right to communicate," says Stephen A. Bokart, executive vice president of the NCLC.

■ Computer Communications

In a case awaiting a ruling by the U.S. Supreme Court, the NCLC is challenging the constitutionality of the Communications Decency Act. The case is *Janet Reno, Attorney General of the United States, vs. American Civil Liberties Union*.

The act, adopted in 1996 as part of legislation deregulating the telecommunications industry, makes it a felony to display or transmit "indecent" or "patently offensive" material over the Internet or other telecommunications systems "in a manner available" to people under 18 years old. Those who violate the statute may be fined up to \$250,000 and jailed for up to two years.

The NCLC has asked the Supreme Court to uphold a ruling from the U.S. District Court for the Eastern District of Pennsylvania, in Philadelphia, that deemed the act unconstitutionally vague.

The act prohibits the transmission of "indecent materials" by "telecommunications device" to those under 18. It also bars the use of an "interactive computer service" to send or display material that, "in context, depicts or describes, in terms patently offensive as measured by contemporary community standards, sexual or excretory activities or organs" that could be viewed by individuals younger than 18.

In its friend-of-the-court brief, the NCLC argued that "the statute could apply to a wide range of socially beneficial, interactive computer communications, including subjects such as information about AIDS, breast cancer, [and] serious literature."

The brief was prepared for the NCLC by the Washington law firm of Wiley, Rein & Fielding and was cited by the attorney for the American Civil

Liberties Union during the March 19 oral arguments before the high court.

Groups challenging the statute, including the NCLC, addressed only the statute's prohibition against communications that are permissible between adults; they did not address "obscenity," the transmission of which is prohibited under the act.

The litigation center pointed out that businesses are among the largest users of information technology and that companies large and small employ 16- and 17-year-olds who could have access to communications networks.

Said the NCLC: "The Chamber of



Commerce of the United States strongly supports the objective of protecting children. Regrettably, however, the act is not crafted with sufficient precision or narrowness to serve the government's asserted objective in a constitutionally permissible manner."

■ Corporate Political Speech

In a separate case, the NCLC is challenging the constitutionality of a Montana law that prohibits businesses from spending corporate money on state ballot initiatives.

In *Montana Chamber of Commerce vs. Argenbright*, the NCLC is asking the

U.S. District Court for the District of Montana, in Helena, to find the law unconstitutional. It is also asking the court to grant a permanent injunction against enforcement of the statute.

The law was adopted through the ballot-initiative process by Montana residents Nov. 5, 1996. It takes effect Oct. 1, 1997.

The statute prohibits corporations from making contributions or expenditures advocating positions on local or state ballot issues. The penalty for violations is \$500 or three times the amount of the unlawful contribution or expenditure, whichever is greater.

The law does not apply to unincorporated entities, including labor organizations, or nonprofit corporations that do not engage in "business activities." Nonprofit corporations that only conduct political activities such as supporting or opposing ballot initiatives, for example, would be exempt from the statute.

The NCLC argues in its brief that the law violates the Constitution's First

Amendment right of free speech, including political speech. The NCLC says the law also violates the Fifth and 14th amendments, which guarantee the rights of due process and equal protection under the law.

"This Montana law is a clear-cut violation of the First Amendment right of businesses to participate in issue-advocacy campaigns," says the NCLC's Bokart, who filed the lawsuit as a co-counsel. "The Founding Fathers gave free speech in political matters the

broadest possible protection. There is no question that the First Amendment protects the free discussion of governmental affairs."

Although the law affects only companies that do business in Montana, and thus the court's ruling would apply only in that state, the case has broad implications for businesses throughout the country that want to weigh in on ballot issues, which sometimes affect them directly, Bokart says.

People and groups that want to stifle business's voice in the political process, he says, are watching the Montana case closely.

■ Fiscal Policy

Encourage Investment, Savings, Panel Told

The U.S. Chamber of Commerce is urging Congress to adopt fiscal policies that will encourage savings and investment and lead to increased productivity and economic growth.

As part of this effort, the Chamber testified March 19 before the House Ways and Means Committee during a hearing on President Clinton's fiscal 1998 budget proposal.

Martin A. Regalia, Chamber vice president and chief economist, called on lawmakers to balance the federal budget, expand individual retirement accounts, repeal or reform the estate- and gift-tax system, reduce the capital-gains tax, and eliminate the alternative minimum tax.

Currently, the rate for estate and gift taxes ranges from 37 to 55 percent on assets valued at more than \$600,000. The maximum tax rate on capital gains for assets held more than a year is 28 percent for individuals. Short-term gains are taxed at ordinary income rates. The rate on capital gains for corporations is 35 percent. The alternative minimum tax requires businesses and individuals to calculate their tax liability without considering certain expenses and to pay this calculation or the standard tax calculation, whichever is higher.

Regalia said reforming or repealing those taxes would improve economic growth by fostering savings, investment, and capital formation.

"The president's budget fails to address these issues," he told the tax-writing committee. Among the weaknesses in the Clinton budget, said Regalia, are its:

- Failure to use Congressional Budget Office economic assumptions in its calculations. Instead, the administration used the more optimistic assumptions of the president's Office of Management and Budget.

The CBO calculates that the Clinton



The U.S. Chamber's Martin A. Regalia cited concerns about the president's budget proposal.

budget will have a \$69 billion deficit in 2002.

- Failure to curtail the growth in entitlement spending.

The president's budget addresses the impending bankruptcy of the Medicare system, the health-insurance system for the elderly, not by reining in spending but by shifting costs from one part of Medicare, which is financed by payroll taxes put into a government trust fund, to another part, which is funded through general taxes. In addition, the president's budget does not reform Social Security, in which spending is expected to begin surpassing revenues in 2013.

- Deferral of deficit reduction. Nearly 75 percent of Clinton's deficit reduction would occur in 2001 and 2002, after he leaves office.

- Reliance on tax increases. While the administration has \$98 billion in tax cuts over five years, it also has \$76 billion in tax increases, mostly on businesses.

■ Legislation

Chamber Pushes Paperwork Bill To Help Business

Pressure is being applied by the U.S. Chamber of Commerce on U.S. senators to approve legislation to ease the federal paperwork burden on business.

The measure, approved recently by the House, would require federal agencies to offer the option of submitting electronically all information required by the government.

Under the legislation, businesses, state and local governments, educational and nonprofit organizations and institutions, and government contractors would have the option of filing information with federal agencies by fax or through computer communication such as electronic mail.

The House bill, called the Paperwork Elimination Act and sponsored by Rep. James Talent, R-Mo., was approved by a 395-0 vote March 13. The date for Senate action is uncertain.

The Chamber says the legislation "is a necessary continuation" of the Paperwork Reduction Act, which limits the amount of paperwork that the federal government can require of businesses and individuals, and mandates that federal agencies substantiate their estimates of the burden on the public of each new paperwork requirement.

■ Budget



Franklin Raines, director of the White House Office of Management and Budget, defended President Clinton's fiscal 1998 budget proposal before business leaders at a Policy Insiders meeting at the U.S. Chamber. He said the administration's budget would be in balance by 2002; the Congressional Budget Office says it would not.

GAIN UPDATE

GRASSROOTS ACTION
INFORMATION
NETWORK

U.S. Chamber of Commerce Federation

Product-Liability Reform Efforts Gain Momentum

Senators Work To Craft Consensus Measure That President Clinton Will Sign

Legislation to reform the nation's product-liability laws is once again wending its way through Congress, and the U.S. Chamber of Commerce is pushing hard—as it has done for the past 13 years—to get a bill enacted.

Sen. John Ashcroft, R-Mo., introduced a bill identical to a proposal backed by the Chamber but vetoed by President Clinton last May. Known as the Product Liability Reform Act of 1997, S. 5 would:

- Limit liability for product sellers for the sale of defective products unless the manufacturer has gone out of business.

- Limit, for each defendant, the liability for noneconomic damages—pain and suffering—to the percentage of responsibility for harm to a victim assigned to each defendant.

- Cap punitive damages at the greater of two times the amount of compensatory damages or \$250,000. For small businesses and individuals, punitive damages would be capped at \$250,000.

- Establish uniform standards for statutes of limitation in bringing product-liability suits and for defenses when a victim of an allegedly defective product is found to have used alcohol or drugs when injured by the product.

Sens. Slade Gorton, R-Wash., and Jay Rockefeller, D-W.Va., who were the main sponsors of a product-liability bill approved May 10, 1995, by a Senate vote of 61-37, are working with Ashcroft to craft a consensus reform measure.

At press time, legislation similar to the Ashcroft bill was expected to be introduced soon in the House. Hearings on a

House product-liability reform bill were to be held in late April.

Proponents of a federal product-liability law to replace the patchwork of 50 state laws came closest to enacting such legislation last year. A House-Senate conference committee

reconciled differences between bills passed by the House and Senate. The House bill was a broad legal-reform measure, which included medical malpractice and other tort reforms; the Senate bill was more tightly focused on product liability.

Despite the compromise, which more closely resembled the Senate bill than the House measure, and bipartisan support in Congress, Clinton vetoed the legislation. Trial attorneys put heavy pressure on the administration in an election year to kill the bill.

Trial lawyers will again be the main opponents of product-liability reform, says Neil Trautwein, legal-affairs specialist with the Chamber. "While the president will not face re-election again, it remains to be seen whether he will fulfill his long-standing pledge to sign 'reasonable' product-liability reform," Trautwein says.

Chamber Urges Enactment Of Limits On Government Competition With Firms

The U.S. Chamber of Commerce is backing legislation that would require the federal government to buy the goods and services it needs from private-sector companies whenever it is possible and cost-effective.

Known as the Freedom From Government Competition Act, the legislation would establish a consistent federal policy on contracting out, or outsourcing, functions heretofore performed by government agencies and departments.

Sponsored by Sen. Craig Thomas, R-Wyo., and Rep. John J. Duncan Jr., R-Tenn., the measures would require the government to compare a private company's costs of manufacturing goods or performing services with an agency's costs. The quality of the goods or services to be provided would also be compared. The government would have to rely on the company or agency providing the best value.

Goods or services that are "inherently governmental"—providing advice to the president, for example—that are necessary for national security, or that are unique or of such a

Continued on Page 10A



How You Can Join GAIN

The Grassroots Action Information Network—GAIN—enhances the ability of business people to influence government decisions that affect their enterprises. Through the network, U.S. Chamber specialists on legislative and regulatory issues provide activist business people with the timely information they need to urge their members of Congress to cast pro-enterprise votes.

For more information on how to become a member of this network, call (202) 463-5604.

GAIN UPDATE

Thank Representatives Who Voted For Comp-Time Bill

The U.S. Chamber of Commerce is asking its members to thank representatives who voted for a bill that would allow employers to give their workers the option to take paid time off in lieu of overtime pay. Members are also asked to express their disappointment with lawmakers who voted against the

legislation. (See the related story detailing the legislation on Page 1A.) The House approved the measure March 19 on a 222-210 vote, with one member not voting. (Currently, there are two vacancies in the House.) Representatives are listed by their states and district numbers.



Voted For

ALABAMA

- 1 Callahan (R)
- 2 Everett (R)
- 3 Riley (R)
- 4 Aderholt (R)

ARIZONA

- 1 Salmon (R)
- 3 Stump (R)
- 4 Shadegg (R)
- 5 Kolbe (R)
- 6 Hayworth (R)

ARKANSAS

- 3 Hutchinson (R)
- 4 Dickey (R)

CALIFORNIA

- 1 Riggs (R)
- 2 Herger (R)
- 4 Doolittle (R)
- 11 Pombo (R)
- 15 Campbell (R)
- 19 Radanovich (R)
- 20 Dooley (D)
- 21 Thomas (R)
- 23 Gallegly (R)
- 25 McKeon (R)
- 27 Rogan (R)
- 28 Dreier (R)
- 36 Harman (D)
- 39 Royce (R)
- 40 Lewis (R)
- 41 Kim (R)
- 43 Calvert (R)
- 44 Bono (R)
- 45 Rohrabacher (R)
- 47 Cox (R)
- 48 Packard (R)
- 49 Bilbray (R)
- 51 Cunningham (R)
- 52 Hunter (R)

COLORADO

- 3 McInnis (R)
- 4 Schaffer (R)
- 5 Hefley (R)
- 6 Schaefer (R)

CONNECTICUT

- 4 Shays (R)
- 6 Johnson (R)

DELAWARE

- AL Castle (R)

FLORIDA

- 1 Scarborough (R)
- 2 Boyd (D)
- 4 Fowler (R)
- 6 Stearns (R)
- 7 Mica (R)
- 8 McCollum (R)
- 9 Bilirakis (R)
- 10 Young (R)
- 12 Canady (R)
- 13 Miller (R)
- 14 Goss (R)
- 15 Weldon (R)
- 16 Foley (R)
- 18 Ros-Lehtinen (R)
- 22 Shaw (R)

GEORGIA

- 1 Kingston (R)
- 3 Collins (R)
- 6 Gingrich (R)
- 7 Barr (R)
- 8 Chambliss (R)
- 9 Deal (R)
- 10 Norwood (R)
- 11 Linder (R)

IDAHO

- 1 Chenoweth (R)
- 2 Crapo (R)

ILLINOIS

- 6 Hyde (R)
- 8 Crane (R)
- 10 Porter (R)
- 13 Fawell (R)
- 14 Hastert (R)
- 15 Ewing (R)
- 16 Manzullo (R)
- 18 LaHood (R)

INDIANA

- 2 McIntosh (R)
- 4 Souder (R)
- 5 Buyer (R)
- 6 Burton (R)
- 7 Pease (R)
- 8 Hostettler (R)

IOWA

- 1 Leach (R)
- 2 Nussle (R)
- 4 Ganske (R)
- 5 Latham (R)

KANSAS

- 1 Moran (R)
- 2 Ryan (R)
- 3 Snowbarger (R)
- 4 Tiahrt (R)

KENTUCKY

- 1 Whitfield (R)
- 2 Lewis (R)
- 3 Northup (R)
- 4 Bunning (R)
- 5 Rogers (R)

LOUISIANA

- 1 Livingston (R)
- 3 Tauzin (R)
- 4 McCrery (R)
- 5 Cooksey (R)
- 6 Baker (R)
- 7 John (D)

MARYLAND

- 1 Gilchrest (R)
- 2 Ehrlich (R)
- 6 Bartlett (R)
- 8 Morella (R)

MICHIGAN

- 2 Hoekstra (R)
- 3 Ehlers (R)
- 4 Camp (R)
- 6 Upton (R)
- 7 Smith (R)
- 11 Knollenberg (R)

MINNESOTA

- 1 Gutknecht (R)
- 2 Minge (D)
- 3 Ramstad (R)
- 7 Peterson (D)

MISSISSIPPI

- 1 Wicker (R)
- 3 Pickering (R)
- 4 Parker (R)
- 5 Taylor (D)

MISSOURI

- 2 Talent (R)
- 7 Blunt (R)
- 8 Emerson (R)
- 9 Hulshof (R)

MONTANA

- AL Hill (R)

NEBRASKA

- 1 Bereuter (R)
- 2 Christensen (R)
- 3 Barrett (R)

NEVADA

- 1 Ensign (R)
- 2 Gibbons (R)

NEW HAMPSHIRE

- 1 Sununu (R)
- 2 Bass (R)

NEW JERSEY

- 3 Saxton (R)
- 5 Roukema (R)
- 7 Franks (R)
- 11 Frelinghuysen (R)
- 12 Pappas (R)

NEW MEXICO

- 2 Skeen (R)

NEW YORK

- 2 Lazio (R)
- 13 Molinari (R)
- 19 Kelly (R)
- 22 Solomon (R)
- 25 Walsh (R)
- 27 Paxon (R)
- 31 Houghton (R)

NORTH CAROLINA

- 3 Jones (R)
- 5 Burr (R)
- 6 Coble (R)
- 7 McIntyre (D)
- 9 Myrick (R)
- 10 Ballenger (R)
- 11 Taylor (R)

OHIO

- 1 Chabot (R)
- 2 Portman (R)
- 4 Oxley (R)
- 5 Gillmor (R)
- 7 Hobson (R)
- 8 Boehner (R)
- 12 Kasich (R)
- 15 Pryce (R)
- 16 Regula (R)
- 18 Ney (R)
- 19 LaTourette (R)

OKLAHOMA

- 1 Largent (R)
- 2 Coburn (R)
- 3 Watkins (R)

4 Watts (R)

- 5 Istook (R)
- 6 Lucas (R)

OREGON

- 2 Smith (R)

PENNSYLVANIA

- 5 Peterson (R)
- 7 Weldon (R)
- 8 Greenwood (R)
- 9 Shuster (R)
- 13 Fox (R)
- 16 Pitts (R)
- 17 Gekas (R)
- 19 Goodling (R)

SOUTH CAROLINA

- 1 Sanford (R)
- 2 Spence (R)
- 3 Graham (R)
- 4 Inglis (R)

SOUTH DAKOTA

- AL Thune (R)

TENNESSEE

- 1 Jenkins (R)
- 2 Duncan (R)
- 3 Wamp (R)
- 4 Hilleary (R)
- 7 Bryant (R)
- 8 Tanner (D)

TEXAS

- 3 Johnson, Sam (R)
- 4 Hall (D)
- 5 Sessions (R)
- 6 Barton (R)
- 7 Archer (R)
- 8 Brady (R)
- 12 Granger (R)
- 13 Thornberry (R)
- 14 Paul (R)
- 17 Stenholm (D)
- 19 Combest (R)
- 21 Smith (R)
- 22 DeLay (R)
- 23 Bonilla (R)
- 26 Armey (R)

UTAH

- 1 Hansen (R)
- 2 Cook (R)
- 3 Cannon (R)

GAIN UPDATE

VIRGINIA

- 1 Bateman (R)
- 2 Pickett (D)
- 5 Goode (D)
- 6 Goodlatte (R)
- 7 Bliley (R)
- 10 Wolf (R)
- 11 Davis (R)

WASHINGTON

- 1 White (R)
- 3 Smith (R)
- 4 Hastings (R)
- 5 Nethercutt (R)
- 8 Dunn (R)

WISCONSIN

- 1 Neumann (R)
- 2 Klug (R)
- 6 Petri (R)
- 9 Sensenbrenner (R)

WYOMING

- AL Cubin (R)



ALABAMA

- 5 Cramer (D)
- 6 Bachus (R)
- 7 Hilliard (D)

ALASKA

- AL Young (R)

ARIZONA

- 2 Pastor (D)

ARKANSAS

- 1 Berry (D)
- 2 Snyder (D)

CALIFORNIA

- 3 Fazio (D)
- 5 Matsui (D)
- 6 Woolsey (D)
- 7 Miller (D)
- 8 Pelosi (D)
- 9 Dellums (D)
- 10 Tauscher (D)
- 12 Lantos (D)
- 13 Stark (D)
- 14 Eshoo (D)
- 16 Lofgren (D)
- 17 Farr (D)
- 18 Condit (D)
- 22 Capps (D)
- 24 Sherman (D)
- 26 Berman (D)
- 29 Waxman (D)
- 30 Becerra (D)
- 31 Martinez (D)
- 32 Dixon (D)

- 33 Roybal-Allard (D)

- 34 Torres (D)
- 35 Waters (D)
- 37 Millender-McDonald (D)
- 38 Horn (R)
- 42 Brown (D)
- 46 Sanchez (D)
- 50 Filner (D)

COLORADO

- 1 Degette (D)
- 2 Skaggs (D)

CONNECTICUT

- 1 Kennelly (D)
- 2 Gejdenson (D)
- 3 DeLauro (D)
- 5 Maloney (D)

FLORIDA

- 3 Brown (D)
- 5 Thurman (D)
- 11 Davis (D)
- 17 Meek (D)
- 19 Wexler (D)
- 20 Deutsch (D)
- 21 Diaz-Balart (R)
- 23 Hastings (D)

GEORGIA

- 2 Bishop (D)
- 4 McKinney (D)
- 5 Lewis (D)

HAWAII

- 1 Abercrombie (D)
- 2 Mink (D)

ILLINOIS

- 1 Rush (D)
- 2 Jackson (D)
- 3 Lipinski (D)
- 4 Gutierrez (D)
- 5 Blagojevich (D)
- 7 Davis (D)
- 9 Yates (D)
- 11 Weller (R)
- 12 Costello (D)
- 17 Evans (D)
- 19 Poshard (D)
- 20 Shimkus (R)

INDIANA

- 1 Visclosky (D)
- 3 Roemer (D)
- 9 Hamilton (D)
- 10 Carson (D)

IOWA

- 3 Boswell (D)

KENTUCKY

- 6 Baesler (D)

LOUISIANA

- 2 Jefferson (D)

MAINE

- 1 Allen (D)
- 2 Baldacci (D)

MARYLAND

- 3 Cardin (D)
- 4 Wynn (D)
- 5 Hoyer (D)
- 7 Cummings (D)

MASSACHUSETTS

- 1 Oliver (D)
- 2 Neal (D)
- 3 McGovern (D)
- 4 Frank (D)
- 5 Meehan (D)
- 6 Tierney (D)
- 7 Markey (D)
- 8 Kennedy (D)
- 9 Maakley (D)
- 10 Delahunt (D)

MICHIGAN

- 1 Stupak (D)
- 5 Barcia (D)
- 8 Stabenow (D)
- 9 Kildee (D)
- 10 Bonior (D)
- 12 Levin (D)
- 13 Rivers (D)
- 14 Conyers (D)
- 15 Kilpatrick (D)
- 16 Dingell (D)

MINNESOTA

- 4 Vento (D)
- 5 Sabo (D)
- 6 Luther (D)
- 8 Oberstar (D)

MISSISSIPPI

- 2 Thompson (D)

MISSOURI

- 1 Clay (D)
- 3 Gephardt (D)
- 4 Skelton (D)
- 5 McCarthy (D)
- 6 Danner (D)

NEW JERSEY

- 1 Andrews (D)
- 2 LoBiondo (R)
- 4 Smith (R)
- 6 Pallone (D)
- 8 Pascarella (D)
- 9 Rothman (D)
- 10 Payne (D)
- 13 Menendez (D)

NEW MEXICO

- 1 Schiff (R)

NEW YORK

- 1 Forbes (R)
- 3 King (R)
- 4 McCarthy (D)

- 5 Ackerman (D)

- 6 Flake (D)
- 7 Manton (D)
- 8 Nadler (D)
- 9 Schumer (D)
- 10 Towns (D)
- 11 Owens (D)
- 12 Velazquez (D)
- 14 Maloney (D)
- 15 Rangel (D)
- 16 Serrano (D)
- 17 Engel (D)
- 18 Lowey (D)
- 20 Gilman (R)
- 21 McNulty (D)
- 23 Boehlert (R)
- 24 McHugh (R)
- 26 Hinchey (D)
- 28 Slaughter (D)
- 29 LaFalce (D)
- 30 Quinn (R)

NORTH CAROLINA

- 1 Clayton (D)
- 2 Etheridge (D)
- 4 Price (D)
- 8 Hefner (D)
- 12 Watt (D)

NORTH DAKOTA

- 1 Pomeroy (D)

OHIO

- 3 Hall (D)
- 6 Strickland (D)
- 10 Kucinich (D)
- 11 Stokes (D)
- 13 Brown (D)
- 14 Sawyer (D)
- 17 Traficant (D)

OREGON

- 1 Furse (D)
- 3 Blumenauer (D)
- 4 DeFazio (D)
- 5 Hooley (D)

PENNSYLVANIA

- 1 Foglietta (D)
- 2 Fattah (D)
- 3 Borski (D)
- 4 Klink (D)
- 6 Holden (D)
- 10 McDade (R)
- 11 Kanjorski (D)
- 12 Murtha (D)
- 14 Coyne (D)
- 15 McHale (D)
- 18 Doyle (D)
- 20 Mascara (D)
- 21 English (R)

RHODE ISLAND

- 1 Kennedy (D)
- 2 Weygand (D)

SOUTH CAROLINA

- 5 Spratt, Jr. (D)
- 6 Clyburn (D)

TENNESSEE

- 5 Clement (D)
- 6 Gordon (D)
- 9 Ford (D)

TEXAS

- 1 Sandlin (D)
- 2 Turner (D)
- 9 Lammson (D)
- 10 Doggett (D)
- 11 Edwards (D)
- 15 Hinojosa (D)
- 16 Reyes (D)
- 18 Jackson Lee (D)
- 20 Gonzalez (D)
- 24 Frost (D)
- 25 Bentsen (D)
- 27 Ortiz (D)
- 29 Green (D)
- 30 Johnson, Eddie Bernice (D)

VERMONT

- AL Sanders (I)

VIRGINIA

- 3 Scott (D)
- 4 Sisiak (D)
- 8 Moran (D)
- 9 Boucher (D)

WASHINGTON

- 2 Metcalf (R)
- 6 Dicks (D)
- 7 McDermott (D)
- 9 Smith (D)

WEST VIRGINIA

- 1 Mollohan (D)
- 2 Wise (D)
- 3 Rahall (D)

WISCONSIN

- 3 Kind (D)
- 4 Kleczka (D)
- 5 Barrett (D)
- 7 Obey (D)
- 8 Johnson (D)



NEW MEXICO

- 3 Vacant

OHIO

- 9 Kaptur (D)

TEXAS

- 28 Vacant

GAIN UPDATE

Continued from Page 7A

nature that they must be performed by the government would be exempt from the new policy.

The Thomas-Duncan legislation, says Jody Olmer, director of domestic policy for the U.S. Chamber, would:

- Save billions of federal dollars with no reduction in services.
- Reduce the size of the federal bureaucracy by limiting it to performing only its core functions.
- Prohibit government competition with the private sector.

The 1980, 1986, and 1994 sessions of the White House Conference on Small Business identified government competition with the private sector as one of the top issues of concern to small business.

The Congressional Budget Office estimated in 1987 that 1.4 million federal employees were engaged in commercial activities.

Those activities, says Robert Raasch, associate manager of domestic policy for the Chamber, could be performed more efficiently and at a lower cost by competitive private-sector enterprises.

An August 1996 study by the Defense Science Board, an internal agency of the Department of Defense, estimated that turning over the "noninherently governmental" activities of the Defense Department to the private sector would save \$30 billion annually.

The savings potential is even greater, though, Raasch points out, because the Thomas-Duncan legislation would apply to all federal agencies, not just the Defense Department.

The commercial activities of the federal government that are in direct competition with the private sector run from the mundane to the high-tech. Some of the industries where the government is competing with businesses are: training and education, office-supply sales, laboratory testing and analysis, motels, campgrounds, janitorial services, landscaping, flag- and furniture-making, architectural and engineering services, operation of helicopters and fixed-wing aircraft, audio-visual services, golf courses, laundry services, printing, data processing, motor pools and vehicle maintenance, food preparation and serving, real-estate appraisals, bill collection, photo processing, and warehousing.

Unions representing government employees are the main opponents of the bills. They contend that the measures would put hundreds of thousands of government employees out of work.

But a study by the U.S. Department of Labor in 1989 found that only 7 percent of government layoffs were caused by outsourcing decisions.

Please call or write your senators and representatives before mid-May and urge them to support the Thomas and Duncan bills, S. 314 and H.R. 716, respectively. Tell them that the legislation could save the government billions of dollars and reduce the size of the federal bureaucracy. Lawmakers can be reached through the Capitol switchboard at (202) 224-3121, or by writing the U.S. Senate, Washington, D.C. 20510, or the U.S. House of Representatives, Washington, D.C. 20515.

For more information about the Freedom From Government Competition Act, call Robert Raasch at (202) 463-5345.

Coalition Urges Swift Legislative Action To Save Ailing Medicare Program

Swift legislative action is needed to keep the federal health-care system for the elderly and the disabled solvent, says the U.S. Chamber of Commerce, co-chair of the Washington-based Coalition to Save Medicare.

In June 1996, the trustees of the Medicare Hospital Insurance Trust Fund reported that the fund could go broke as early as 2000, two years earlier than the trustees had estimated in 1995.

Congress and the Clinton administration are considering

Medicare proposals as they work toward approval of a budget for fiscal 1998. Efforts last year by Republican lawmakers and President Clinton to reach agreement on Medicare reform failed.

The sheer size and scale of Medicare's short- and long-term problems make reform of the system a daunting task, says Neil Trautwein,



manager of health-care policy for the Chamber.

The short-term problem—the pending insolvency—could be fixed either by raising the Medicare payroll tax on employers and employees or by slowing the rate of growth in Medicare spending, say those who have studied the issue.

The Medicare payroll tax is currently 1.45 percent each for employers and employees. According to the June 1996 report of the Medicare trustees, combined employer and employee payroll taxes would have to be raised immediately by 4.52 percentage points, to 7.42 percent, for Medicare to remain solvent. The Chamber strongly opposes increases in the Medicare payroll tax.

The president's budget proposes \$138 billion in Medicare savings over five years. However, his proposal to expand Medicare spending for mammography screening and his support for Alzheimer's disease caregivers would bring net savings down to \$100 billion over five years. The president's budget would shift savings from one part of Medicare, which is financed by payroll taxes put into a government trust fund, to another part, which is funded through general taxes.

Republicans in Congress are expected to propose a measure similar to one they offered last year, which called for savings of \$156 billion over six years.

The long-term problem is one of demographics. Medicare and other federal entitlements, such as Social Security and Medicaid, will be swamped by the retirement of the baby-boom generation—those born between the end of World War II and the early 1960s—starting in 2010 unless steps are taken to make fundamental changes in the entitlements' approach.

A competition-based approach seems to be the likely fix for Medicare's long-term problem. Under one such approach, health plans—including fee-for-service plans, managed-care plans, medical savings accounts, and new provider-sponsored networks—would compete with the Medicare program for senior citizens' patronage on the basis of cost, quality, and service. **G**

■ Legislation

Term-Limit Amendment Fails

Attempts to limit the terms of House and Senate members, a concept supported by the U.S. Chamber of Commerce, were soundly defeated earlier this year.

House votes on Feb. 12 on measures to amend the Constitution to limit the terms of members of Congress fell significantly short of the two-thirds majority necessary for approval.

Amendments to the Constitution require the support of two-thirds of the members present and voting in both houses of Congress and ratification by 38 of the 50 states.

The lead proposal, sponsored by Rep. Bill McCollum, R-Fla., came closest to passing but failed on a 217-211 vote—69 votes short. McCollum's bill would have limited congressional terms to 12 years in office.

Lawmakers voted the same day on 10 other term-limit bills, none of which re-

ceived even a simple majority vote of support. The other measures were variations of the McCollum bill, with some proposing shorter terms and others making the limits on members' terms retroactive to the beginning of their congressional tenure. McCollum's bill would not have been retroactive.

In a Feb. 10 letter to the House, the Chamber expressed its support for McCollum's measure: "The Chamber's membership has spoken loudly and clearly on the issue of term limits. In various forms of feedback, our members have overwhelmingly and consistently expressed strong support for limiting the terms of members of Congress."

"[The McCollum bill] seeks to move Congress closer to that of a citizen legislature, where its members serve a limited period of time under the laws it enacts."



Rep. Bill McCollum, R-Fla., sponsored the leading House bill.

■ Small-Business Agenda



Rep. James Talent, R-Mo., center, and the U.S. Chamber's Lonnie Taylor, left, and David Voight discuss the prospects for legislation important to small businesses. Talent is chairman of the House Small Business Committee. Taylor is the Chamber's vice president for congressional affairs; Voight is director of the organization's Small Business Center.

The House defeat of term limits likely precludes further action in the 105th Congress, which is scheduled to conclude in late 1998.

State lawmakers in 20 states and the governors of 40 states are limited in their terms in office. And until a 1995 U.S. Supreme Court ruling struck them down as unconstitutional, term limits on the congressional delegations of 23 states had been approved by voters.

■ Congress Guide On Lawmakers Now Available

The U.S. Chamber of Commerce's 1997 *Congressional Handbook* is available to members of the organization at a discount.

Produced annually, the handbook includes the photographs of members of the House and Senate. It also contains their committee and subcommittee assignments, the telephone numbers for their Capitol Hill and district offices, and their Capitol Hill room numbers. Fax numbers for their Washington offices also are included.

Legislators are listed by state and separately by committee. Key staff members for all senators and representatives are also listed.

In addition, a directory of addresses and telephone numbers for the White House, Cabinet members, selected federal agencies, and state governors is included.

The handbooks cost \$12 each for U.S. Chamber members and \$15 for nonmembers for orders of one to nine copies. Discounts are available for orders of 10 to 99 copies and for 100 or more. To order, call 1-800-638-6582. In Maryland, call 1-800-352-1450. Request publication No. 0483.



■ International

Group To Push Eurasia Trade

The International Division of the U.S. Chamber of Commerce has established an alliance of U.S. companies that do business in Eastern Europe to improve trade and investment opportunities in many of the former Iron Curtain countries.

Known as A.B.A.T.E.—American Business Alliance for the Transition Economies of Eurasia—the new regional alliance brings together several of the Chamber's business-advocacy groups, including those dealing with the Czech Republic, Slovakia, Hungary, Poland, Bulgaria, Romania, and Ukraine. The alliance also covers the former republics of the Soviet Union now known as the New Independent States.

The organization will lobby for U.S.

business interests before the U.S. Congress and the governments of the Eastern European nations and the New Independent States. It will pursue policies that encourage trade relations between the U.S. and the former Soviet republics and Soviet bloc countries, which are still undergoing the transformation from state-run to free-market economies.

The group will also help educate public-opinion leaders in the United States and abroad about the importance of U.S. investment in Eastern Europe and the New Independent States.

In addition, it will lobby U.S. and foreign government officials on specific is-



Gary Litman is executive director of the U.S. Chamber's American Business Alliance for the Transition Economies of Eurasia.

issues that affect U.S. companies trading in the region, including market access, privatization, infrastructure, banking and financial reform, and the protection of intellectual-property rights.

Companies that join the alliance can receive upon request current political, legislative, and business intelligence on Eastern European countries and the New Independent States, as well as advice on business practices in the region. Member firms also receive *The Alliance Friday News Dispatch*, a weekly newsletter on regulations, legislation,

and industry information from the region. The newsletter is faxed free to alliance members.

For more information about the activities of A.B.A.T.E., or to join the alliance, call the Chamber's International Division at (202) 463-5473.

■ Free Enterprise

The Center for International Private Enterprise, a U.S. Chamber affiliate, has funded more than 420 projects in 70 developing countries since 1983. Last year, it made grants for 76 projects, including training for workers in this garment factory in Satorajauhely, Hungary.



■ Clinton Proposal

Contract Plan Called 'Absurd'

The U.S. Chamber of Commerce has characterized as "absurd" and "reckless" a proposal by the Clinton administration that would deny federal contracts to firms that violate labor laws.

The proposal is among possible changes that the administration is considering in the Federal Acquisition Regulation, which governs federal contracting.

Under the proposal, the government would examine a company's record of complying with laws that govern workplace safety and health, wages and benefits, equal opportunity, and union organizing and bargaining before awarding a contract. Firms that have an "unsatisfactory" record would be barred from bidding on federal contracts.

Another policy change would prohibit the government from reimbursing federal contractors for costs incurred in fighting union organizing attempts or for defending themselves against allegations of unfair labor practices.

The proposed changes are expected to be contained in a presidential executive order. The timing for that order is uncertain.

Vice President Al Gore announced the proposed changes at the AFL-CIO's February meeting in Los Angeles. He said the federal government would be able to reject contract bids from companies that do not have a "satisfactory" labor relations record.

Of the proposed changes, Jeffrey H. Joseph, the Chamber's vice president for domestic policy, says, "The Clinton administration is willing to change 50 years of balanced labor law to stack the deck in favor of the labor unions."

Joseph calls the proposals "a cheap political payoff to the AFL-CIO for the \$35 million in union dues it spent attacking congressional Republicans in the last election."

Labor targeted more than 70 pro-business lawmakers—mostly freshmen—for defeat in the 1996 elections.

Balanced-Budget Amendment

Contact Lawmakers About Vote



A measure sponsored by Sen. Orrin G. Hatch, R-Utah, calling for a balanced-budget constitutional amendment failed in the Senate by one vote.

The U.S. Chamber of Commerce is asking its members to thank senators who voted in favor of legislation calling for a balanced-budget amendment to the Constitution and to express their disappointment to those who voted against the measure.

The Senate voted 66-34 March 4 in favor of the legislation, which was sponsored by Sen. Orrin G. Hatch, R-Utah, but constitutional amendments require approval by two-thirds of the members present and voting in each house of Congress. Sixty-seven votes were needed for the Senate to pass the measure.

Amendments to the Constitution also require ratification by 38 of the 50 states.

All 55 Senate Republicans voted for the proposal, along with 11 Democrats. Several Democrats who previously voted for the amendment voted against it this time, including freshman Sens. Robert G. Torricelli of New Jersey and Tim Johnson of South Dakota, both of whom had voted in favor of the measure in 1995

when they were members of the House of Representatives.

Despite the Senate defeat of the amendment, the House is expected to consider its balanced-budget amendment sometime after Congress' spring recess. The House approved a balanced-budget measure in January 1995 by a vote of 300-132, 10 votes more than the 290 needed for approval.

Should the House pass its measure this year, it would be sent to the Senate for consideration.

The pending House measure would require Congress to approve yearly federal budgets with spending no greater than expected revenues. The Senate proposal contained a similar requirement.

Under the proposals, a three-fifths majority of both houses of Congress could waive the balanced-budget requirement and approve a specified amount of deficit spending. A constitutional majority—51 votes in the Senate and 218 in the House—would be required to raise taxes.

SENATE VOTE

VOTED YES

ALABAMA

Shelby (R)
Sessions (R)

ALASKA

Stevens (R)
Murkowski (R)

ARIZONA

McCain (R)
Kyl (R)

ARKANSAS

Hutchinson (R)

COLORADO

Campbell (R)
Allard (R)

DELAWARE

Roth (R)
Biden (D)

FLORIDA

Graham (D)
Mack (R)

GEORGIA

Coverdell (R)
Cleland (D)

IDAHO

Craig (R)
Kempthorne (R)

ILLINOIS

Moseley-Braun (D)

INDIANA

Lugar (R)
Coats (R)

IOWA

Grassley (R)
Harkin (D)

KANSAS

Brownback (R)
Roberts (R)

KENTUCKY

McConnell (R)

LOUISIANA

Breaux (D)
Landrieu (D)

MAINE

Snowe (R)
Collins (R)

MICHIGAN

Abraham (R)

MINNESOTA

Grams (R)

MISSISSIPPI

Cochran (R)
Lott (R)

MISSOURI

Bond (R)
Ashcroft (R)

MONTANA

Baucus (D)
Burns (R)

NEBRASKA

Hagel (R)

NEVADA

Bryan (D)

NEW HAMPSHIRE

Smith (R)
Gregg (R)

NEW MEXICO

Domenici (R)

NEW YORK

D'Amato (R)

NORTH CAROLINA

Helms (R)
Faircloth (R)

OHIO

DeWine (R)

OKLAHOMA

Nickles (R)
Inhofe (R)

OREGON

Smith (R)

PENNSYLVANIA

Specter (R)
Santorum (R)

RHODE ISLAND

Chafee (R)

SOUTH CAROLINA

Thurmond (R)

TENNESSEE

Thompson (R)
Frist (R)

TEXAS

Gramm (R)
Hutchison (R)

UTAH

Hatch (R)
Bennett (R)

VERMONT

Jeffords (R)

VIRGINIA

Warner (R)
Robb (D)

WASHINGTON

Gorton (R)

WISCONSIN

Kohl (D)

WYOMING

Thomas (R)
Enzi (R)

VOTED NO

ARKANSAS

Bumpers (D)

CALIFORNIA

Feinstein (D)*
Boxer (D)

CONNECTICUT

Dodd (D)
Lieberman (D)

HAWAII

Inouye (D)
Akaka (D)

ILLINOIS

Durbin (D)

KENTUCKY

Ford (D)*

MARYLAND

Sarbanes (D)
Mikulski (D)

MASSACHUSETTS

Kennedy (D)
Kerry (D)

MICHIGAN

Levin (D)

MINNESOTA

Weilstone (D)

NEBRASKA

Kerry (D)

NEVADA

Reid (D)

NEW JERSEY

Lautenberg (D)
Torricelli (D)**

NEW MEXICO

Singman (D)*

NEW YORK

Moynihan (D)

NORTH DAKOTA

Conrad (D)
Dorgan (D)*

OHIO

Glenn (D)

OREGON

Wyden (D)

RHODE ISLAND

Reed (D)

SOUTH CAROLINA

Hollings (D)*

SOUTH DAKOTA

Daschle (D)
Johnson (D)**

VERMONT

Leahy (D)

WASHINGTON

Murray (D)

WEST VIRGINIA

Byrd (D)
Ricketts (D)

WISCONSIN

Fringgold (D)

*Voted for the amendment in 1994

**Voted for the amendment in 1995

■ Management

Business Seminar Series Set

The Quality Learning Services (QLS) Department of the U.S. Chamber of Commerce has announced its fall 1997 series of business management seminars.

The seminars, which will be broadcast by satellite nationwide, will be presented jointly by QLS and the American Society for Training and Development in Alexandria, Va. The society is a leading organization of workplace training and development professionals.

The series schedule is:

Sept. 16—"Building Nimble Organizations for Turbulent Times," Daryl R. Conner, founder and CEO of ODR, Inc., a management consulting firm in Atlanta.

Sept. 30—"Putting Power, Punch and Pizzazz Into Your Presentations," Robert W. Pike, president of Creative Training Techniques International, an education- and training-programs company in Edina, Minn.

Oct. 28—"The Connective Edge:



William J. Morin, president of WJM Associates in New York, will be among the presenters in the U.S. Chamber's fall series of business management seminars.

Leading in an Interdependent World," Jean Lipman-Blumen, author of *The Connective Edge: Leading in an Interdependent World*, and co-director and co-founder of the Institute for Advanced Studies in Leadership at the Peter F. Drucker Graduate Management Center in Claremont, Calif.

Nov. 12—"Executive Coaching: How to Recruit, Coach and Promote Fast-Track Employees," William J. Morin of WJM Associates, a management consulting firm in New York City.

Nov. 18—"Leading Teams Effectively," Peter Scholtes, founder of Scholtes Seminars and Consulting, a management consulting firm in Madison, Wis.

Dec. 9—(Topic to be determined.) Sean Covey, a vice president with the Covey Leadership Center, a leadership and management training company in Provo, Utah.

For more information on the series, call the QLS at 1-800-835-4730 or (202) 463-5940.

■ Lobbying



Doug Loon, right, the Chamber's director of congressional affairs, discusses the business federation's 1997-98 National Business Agenda with Rep. Bob Stump, R-Ariz.

■ Education

Courses Offered On The Internet

Accredited small-business courses are being offered over the Internet by the U.S. Chamber of Commerce and the University of Wisconsin.

Topics in the five-part series, titled "Mastering Your Small Business," include marketing, finance, total quality management, business and the legal system, and human resources.

Using newly designed software from Lotus Development Corp., students can take the classes and communicate directly with professors at the University of Wisconsin over the Internet. Students may also participate through the mail, by fax, or through electronic mail.

Students who successfully complete the program earn a certificate of mastery in small-business management and 60 continuing-education credits.

Each course costs \$130. Chamber members receive a 20 percent discount on the \$36 registration fee.

For a preview of the classes, visit the



Cheri and Bill Ranguette, right, owners of O'Malley's Restaurant in Waunakee, Wis., go on-line to take a small-business course offered by the U.S. Chamber and the University of Wisconsin, as Richard Schafer, the university's director of flexible learning, observes.

U.S. Chamber's World Wide Web site at www.uschamber.org/programs/sbi. To request registration information, call 1-800-888-2571.

■ Legislation

Action Urged Now

Continued from Page 1A

under the Fair Labor Standards Act of 1938, to an 80-hour two-week period. Such a change would permit, for example, an hourly employee to work 50 hours one week and 30 hours the next, provided employer and employee both agree to the arrangement. Workers would receive overtime pay or comp time for every hour over 80 worked in the two-week period.

Currently, hourly employees must be paid 1½ times their hourly wage for each hour over 40 worked in one week.

The measure approved by the House March 19 on a 222-210 vote deals only with comp time for hours worked over 40 in a week. It would not extend the official hourly employee workweek to an 80-hour two-week period.

Both the House and Senate bills would amend the Fair Labor Standards Act to allow workers to accrue compensatory leave at the rate of 1½ hours for each hour of overtime worked. The House measure would allow employees to accrue up to 160 hours of comp time in a year; the pending Senate bill would allow up to 240 hours annually.

The House bill would expire five years after its enactment to allow

Congress to review its effectiveness. The Senate bill has no "sunset" provision.

The Clinton administration and organized labor oppose the House and Senate legislation, sponsored by Rep. Cass Ballenger, R-N.C., and Sen. John Ashcroft, R-Mo., respectively. They say that employers would coerce workers into taking comp time instead of overtime pay and that the bills have inadequate protections for employees.

Under both bills, comp time for overtime could be approved only through mutual agreement in writing between the employer and the employee. Workers would be allowed to use their accrued comp time after giving employers reasonable notice, and employees could elect to "cash out" their comp time at any time. Employers would be required to pay workers within 30 days of a cash-out request.

An employee who believed he or she had been coerced into accepting comp

time in lieu of overtime pay could file a complaint with the U.S. Department of Labor. Employers found guilty of such coercion would be liable for back pay and interest, and they would be subject to triple damages.

Despite those protections, President Clinton has threatened to veto the comp-time legislation.

A recent poll by Penn & Schoen Associates, a research firm in New York City and Washington, D.C., found that 75 percent of Americans favor allowing hourly employees to choose between receiving time and a half in wages or equivalent time off for overtime work.

A survey conducted in 1995 by the Women's Bureau of the Labor Department found that the top concern of working women is flexibility in work schedules.

Also, Robert Raasch, the U.S. Chamber's associate manager of labor policy, points out that public-sector employees have been able to choose comp time in lieu of overtime pay since 1985.

Call your senators immediately at (202) 224-3121 and urge them to support the Ashcroft bill.



House bill sponsor Rep. Cass Ballenger, R-N.C.

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U.S. Chamber Member Benefits

Here are some of the most important products and services offered by the U.S. Chamber.

■ Retirement Plans For Member Firms

The U.S. Chamber of Commerce and Fidelity Investments are offering a package of retirement plans and services that are designed to be accessible, affordable, and convenient for Chamber members.

The products are intended primarily for businesses employing fewer than 100 workers. They



Fidelity Investments

include 401(k), Keogh, SEP-IRA, and SIMPLE—Savings Incentive Match Plan for Employees—plans.

Fidelity provides investment-management and record-keeping services as well as materials for employers to use in communicating with employees about the plans.

For more information, call Fidelity toll-free at 1-888-RET-PLAN (1-888-738-7525).

■ Airborne Express Discounts Available

Through a special arrangement between the U.S. Chamber and Airborne Express, Chamber members can save up to 37 percent on the cost of overnight shipments to nearly anywhere in the United States and to the more than 200 other countries served by Airborne. The company offers round-the-clock customer service and computerized package tracking.

To obtain the discounted service, call 1-800-636-2377 and identify yourself as a U.S. Chamber member. You will be sent a free starter kit on using Airborne Express.

■ Business Help

Nation's Business offers a number of ancillary products to help people start and expand businesses. The products include:

BizPlanBuilder, a computer program that can help produce a polished business plan. It includes more than 90 pages of typed and formatted forms and files needed for a professional-looking plan. The product comes with a 126-page

reference guide and is available on disk for DOS (5¼ inch or 3¼ inch), Windows (3¼ inch), and Macintosh.

EmployeeManualMaker, which allows business managers to publish their own manuals on company policies, procedures, and benefits. The computer program has more than 140 ready-to-customize documents. It comes with a 400-page reference guide and is available on disk for DOS (5¼ inch or 3¼ inch) and Macintosh.

Sales LetterWorks, a program containing 308 custom-crafted letters for use in virtually all aspects of selling, including responding to customer complaints and collecting money. The program comes with a 372-page book and is available on disk for DOS (5¼ inch or 3¼ inch), Windows (3¼ inch), and Macintosh.

To order any of the products listed above, call 1-800-722-2628.

■ Export Resources

The U.S. Chamber publishes a quarterly newsletter on export assistance that is free to Chamber members. Produced by the International Division's Information Center, each newsletter focuses on trade in a specific region.

The Information Center also provides technical assistance to U.S. Chamber members exploring foreign markets.

To obtain a copy of the newsletter or for more information about the center, call (202) 463-5483.

■ Continuing Education

The Institutes for Organization Management, a continuing-education program for chamber and association executives, is now conducting sessions.

The U.S. Chamber program involves weeklong training sessions that help association and chamber executives strengthen their leadership, management, interpersonal, and communications skills.

Sessions for chamber executives are scheduled for June 8-13 at the University of Notre Dame, South Bend, Ind.; June 15-20 at the University of Georgia, Athens; June 22-27 at Southern Methodist

University, Dallas; July 13-18 at the University of California, Los Angeles; July 20-25 at Colorado College, Colorado Springs, Colo.; Aug. 3-8 at the University of Delaware, Newark; Aug. 10-15 at the College of Charleston, Charleston, S.C.; and Jan. 18-23, 1998, at the University of Oklahoma, Norman.

Sessions for association executives will be held on the dates listed above at the following campuses: Notre Dame, UCLA, Delaware, Charleston, and Oklahoma.

For enrollment information, including a catalog on the program, call (202) 463-5570.

■ Business Seminars



Ken Blanchard

Best-selling author Ken Blanchard, chairman of Blanchard Training and Development, Inc., of Escondido, Calif., will be the presenter

for a satellite seminar sponsored by the U.S. Chamber's Quality Learning Services (QLS) Department and the American Society for Training and Development in Alexandria, Va.

The seminar, titled "Mission Possible: Creating a World-Class Organization While There's Still Time," will air at download sites June 3 from 1 to 3 p.m. Eastern time.

Blanchard is the author of the top-selling *The One Minute Manager* and other management books, including *Everyone's A Coach*, written with Don Shula, former head coach of the National Football League's Miami Dolphins.

Other seminars in the spring 1997 series, with the date, topic, and presenter of each, are:

April 29—"Be Direct! Make Your Direct Marketing & Advertising Pay," Lester Wunderman, founder of Wunderman, Cato, Johnson, a New York City advertising agency. This program is sponsored by Random House Inc.

May 6—"Guerrilla Marketing for Your Small & Growing Business," Jay Conrad Levinson, author and co-founder of Guerrilla Marketing

International, Inc., of Mill Valley, Calif. This program is sponsored by the Edward Lowe Foundation of Cassopolis, Mich., and *Home Office Computing* magazine.

May 20—"It's About Sales: Develop Selling Skills—Even If You're Not In Sales!," Molly Breazeale and Daniel M. Handley, Dale Carnegie Training, Garden City, N.Y.

For more information on the series, call the QLS fax-on-demand service at 1-800-851-8705 and enter 190. If you don't have a fax and would like more information, call QLS at 1-800-835-4730 or (202) 463-5940.

To find out how your organization can become a host site or to locate a site in your area, contact QLS at the numbers listed above. U.S. Chamber members receive a 10 percent discount on the price of the seminars when they host a download site.

For a preview of the fall series of seminars, see Page 14A.

■ Government-Affairs Guide

For state and local chambers of commerce that want to become more involved in the political and legislative processes, the U.S.



Chamber's Office of Chamber of Commerce Relations has a new publication: *Building An Effective Government Affairs Program*.

The guide details the steps needed to set up an effective government-affairs program, and it contains examples from the successful programs of various state and local chambers.

To order the publication, which costs \$25, call Fannie Jones at (202) 463-5580.